THE PURSE OF INDIA

A STUDY OF THE FINANCIAL POLICY OF THE GOVERNMENT OF INDIA

BY

M. SUBRAYA KAMATH

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PREFACE.

An effort is made in the following few pages to place before the Indian public a clear exposition of the finances of the Government of India as influenced, or rather dislocated, by the gift of a hundred millions sterling to the Empire.

No criticism is here offered on the question whether that gift was justified by the present economic condition of India. I have merely indicated how serious a situation the gift has caused, concerning the future of our Motherland.

The main weakness of the Government of India financial advisers has been their short-sightedness. They are rarely known to have looked ahead even for a decade. I have attempted to explain the harm in continuing such a policy, and incidentally drawn attention to some financial problems which are not now receiving adequate attention.

Some of the chapters appeared in the *New India* and the *Commonweal*, whose Editor has, with her usual kindness, permitted me to incorporate them into this booklet.

On some problems, I have expressed views not wholly identical with those of the Congress leaders and I leave it to the reader to judge how

for my view is substantiated by existing evidence. On those topics as on any other, I shall gratefully receive any criticisms, which I shall incorporate in the next edition.

The first chapter merely reproduces some passages from Sir William Meyer's Financial Statement for 1917-18 and it gives the *official* explanation of the war gift, the situation created by which is later on dealt with from the Indian stand-point.

This booklet deals with a subject rarely popular with an average reader, which probably explains the absence of any treatise on it. Here is an effort to make good that omission and if the reader will kindly pass on to me his suggestions and criticisms, it may be possible to bring out a more comprehensive volume in a short time.

10, Esplanade,
Madras.

M. Subraya Kamath.

THE FINANCIAL STATEMENT FOR 1917—18.

A SUMMARY.

The study of the succeeding chapters will be considerably assisted if the reader will glance through the following passages from the Financial Statement presented this year by Sir William Meyer. The reader will also find in them an account of the circumstances under which the hundred million war gift was made to the Imperial Government. The Finauce Member said :

We have been subjected to much criticism in certain quarters for not contributing more than we have done, and we have been reminded in this connection of a Resolution moved and carried in this Council on the 8th September 1914, by Sir Gangadhar Chitnavis, to which Your Excellency referred in your speech on the 7th February, in which the Council expressed the opinion that "the people of India, in addition to the military assistance now being afforded by India to the Empire, would wish to share in the heavy financial burden now imposed by the war on the United Kingdom, and request the Government of India to take this view into consideration and thus to demonstrate the unity of India with the Empire." Also of a further Resolution, moved

and carried on the 24th February, 1915, by Mr. M. S. Das. which affirmed the "unswerving resolution of Indians to support the honour, dignity and prestige of the Empire regardless of the sacrifices it may entail on them." We have been told that it is a very inadequate compliance with the spirit of these Resolutions to 'be merely bearing the normal peace cost of the expeditionary forces which we have despatched over-seas; and we have been accused, with reference to remarks made in paragraph 14 of my speech introducing the last Financial Statement and paragraph 5 of that introducing the final Budget, of having tried to squeeze His Majesty's Government in respect even of these normal charges.

Well, I must remind these critics that Section 22 of the Government of India Act forbids the application of the revenues of India to defraying the expenses of any military operations carried on beyond our external frontiers otherwise than for preventing or repelling actual invasion or under some other sudden or urgent necessity, and that the specific consent of both Houses of Parliament is requisite to set these provisions aside. As the law stands, the whole cost of the expeditionary forces supplied from India was therefore primarily debitable to His Majesty's Government, as had been the case, for example, in regard to the troops we lent for operations in South Africa during the Boer War, and in China about the same time. We felt, however, that in the circumstances of the present war we could not properly claim such full payment, and accordingly, after the passing of Sir Gangadhar

Chitnavis's resolution, which, I may say, was brought forward with the full cognisance and approval of Lord Hardinge's Government, we proposed that we should bear the normal charges. Resolutions to this effect were passed in both Houses of Parliament first in September, 1914 and again in November of that year, and the latter Resolution governs India's present contribution in money to the war. Its terms are as follows:—

"That, His Majesty having directed military forces charged upon the revenues of India to be despatched out of India for service in the war in which this country is engaged, this House consents that the ordinary pay and other ordinary charges of any troops so despatched, or that may be so despatched during the continuance of the war, as well as the ordinary charges of any vessels belonging to the Government of India that may be employed in these expeditions, which would have been charged upon the resources of India if such troops or vessels had remained in that country or seas adjacent, shall continue to be so chargeable, provided that, if it shall be necessary to replace the troops or vessels so withdrawn by other vessels or forces, that the expense of raising, maintaining, and providing such vessels and forces shall be repaid out of any moneys which may be provided by Parliament for the purposes of the said expeditions."

So long as this Resolution is in force, His Majesty's Government and we are equally bound by it, and we can neither increase nor decrease the

amount of financial assistance which we render in accordance with its terms. In effect what the Resolution lays down is that, although we sent a large number of our best troops out of the country at a time when mere considerations of local safety might well have dictated their remaining here, we pay for them just as if they were still employed in India and at our beck and call.

Further, as regards what constitute "normal charges" in respect of the many items of expenditure involved, we are bound to satisfy our Auditor-General as to the correctness of the classification or to submit his objections for the decision of the Secretary of State, There have consequently been discussions with His Majesty's Government in regard to the proper interpretation of the term "normal charges" in respect of various items, some of the more important of which were mentioned in the portions of my speeches above referred to. But in every case, the discussion has been of the most friendly nature, and whenever there was any reasonable doubt we have been very willing that the decision should be given against ourselves. I may add that the War Office have cordially acknowledged the fairness and clearness with which the accounts have been compiled on this side, and the credit for this is primarily due to Mr. B. N. Mitra, C. I. E., the Controller of War Accounts.

WHAT INDIA HAS SO FOR DONE

The gross amount that we shall thus have contributed up to the end of the present year may be

taken at £19 millions; but against this must be set charges relating to British troops actually serving in India which are being borne by the Imperial Government in pursuance of the provision in the Resolution of both Houses of Parliament, that the cost of substituted troops (territorial and garrison battalions) shall be borne by the Home Government. With that adjustment, our total net contribution towards the cost of the war in respect of the expeditionary forces is about £11½ million up to the end of the current year, to which we must add another £4 millions estimated in respect of 1917-18.

It may be said, of course, that we have not done enough in this respect, and that we ought through His Majesty's Government, to have moved Parliament to authorise a wider expenditure by India. That is a point which I shall discuss presently. In the meantime, I desire to emphasise the fact that we cheerfully agreed to bear the charges which I have discussed above, and that we have never sought to minimise them, though we have been bound to interpret the terms of the Parliamentary Resolutions in a way that would satisfy the Auditor-General.

It has also to be borne in mind that, quite apart from these charges, we have had to add to our military expenditure very considerably in connection with the war, which has in particular rendered it necessary to take special measures for the protection of the North-West Frontier. I need not go into details here, but will let the lump figures of military expenditure speak for themselves. The last budget,

framed under peace conditions, that for 1914-15, assumed a total net military expenditure of £ 20½ millions, which was higher than the outlay for any preceding year subsequent to 1906-07. In 1915-16 the net military expenditure amounted to £ 22¼ millions; in the current year, as I have already explained, it has run up to nearly £25·4 millions, while we expect it to amount to close on £26 millions in 1917-18. The bulk of the increased expenditure thus shown is directly attributable to circumstances connected with the war, and with the precautionary attitude which further possibilities have forced upon us.

It has also to be remembered that we have been put to very considerable additional expenditure, in conjunction with His Majesty's Government, by reason of the political situation in Persia set up by the war. The total additional cost thus thrown upon us may be taken at £1,200,000 from the commencement of the war up to March 1918.

We have further, as I have already indicated, had to strain our resources very seriously, and to impose prejudicial limitations on legitimate trade activities, in order to finance very heavy charges in this country on account of His Majesty's Government while we have recently given them a large part of our recoveries by taking up Treasury Bills through the Paper Currency and Gold Standard Reserves. In all, as I showed in paragraph 37, we have, since the beginning of the war, put £46½ millions into British war securities, of which £35 millions represents

wholly new investment. And in 1917-18 we expect that our anticipatory payments for the Home Government will be about as heavy as in the current year while we must anticipate a recurrence of the attendant difficulties.

Finally at the cost of cutting down our capital expenditure programme to the quick, we have abstained from indenting on the Home money market with the intention of leaving it free for His Majesty's Government's loan operations. Thus in 1915-16, allowing for the discharge of debt, our net borrowings in London amounted only to a sum of £2 millions, while in the current year we are making no fresh sterling borrowing, but are on the contrary redeeming £7½ millions of previous debt. Nor do we propose to indent on the Home market in any way in the coming year

We have been reproached in certain quarters for not having taken steps, a year or two ago, to float a special war loan in India, the proceeds of which would have gone to His Majesty's Government. I need only say that we carefully considered the desirability of such action and came to the conclusion that it was at that time not expedient. That conclusion, as the Secretary of State announced some time ago in the House of Commons, was fully accepted by His Majesty's Government, who realized that the best assistance we could then give was to abstain from borrowing in the Home market and rely on India for our own essential requirements.

I now revert to the question whether we might have done more in respect of direct contribution

to His Majesty's Government, with reference to Sir Gangadhar Chitnavis's Resolution of September, 1914. The answer is that the situation at that time did not permit it. Our finances had been most gravely dislocated by the war; we were faced not merely by a large decrease in revenue, but by a very serious drain on our Post Office savings bank deposits, which had compelled us to borrow £7 millions from the Gold Standard Reserve, while the Secretary of State had incurred £7 millions of temporary debt in London. In framing the Budget for 1915-16 again, we were faced by what, we thought, would be a heavy deficit, and having regard to political and financial considerations, Lord Hardinge's Government felt strongly that it was necessary at that time to avoid additional taxation. In connection with the Budget for the current year such taxation had become a necessity, but the position on the North-West Frontier was still so uncertain that we could not safely undertake fresh direct liabilities in connection with the prosecution of the war outside India. We had still, moreover, heavy temporary debt liabilities, £4 millions remaining due to the Gold Standard Reserve, while we did not then see our way to repaying more than £1½ millions of the Secretary of State's India Bills.

We have always felt, however, that if and when our circumstances warranted this, we should take up this question of making a further direct contribution by India towards a struggle in which her own political and economic future is so closely involved and throughout which her trade and security have

been so materially assisted by the command of the sea established by His Majesty's Navy; and we have been in constant touch with His Majesty's Government in regard to this matter. We hold that the time has now come at which we can safely put our wish into effect, and thereby gratify still further the patriotic feelings unanimously expressed in the Council on the occasion of the Resolutions moved by Sir G. Chitnavis and Mr. M, S. Das. We are able to do this without misgiving, since we have now, as I have already explained, cleared off the whole of our temporary liabilities, and have accumulated balances strong enough to enable us to carry out our reduced capital expenditure programme without further borrowing in India on our own account next year.

The War Gift.

Accordingly, at the beginning of January, Your Excellency addressed a telegram to the Secretary of State, from which I quote the following passage:—

"I feel, and I speak throughout with the cordial and unanimous assent of my colleagues, that the time has come for India to place her credit and her taxable capacity at the disposal of His Majesty's Government, to be utilised to the farthest extent which her limited resources and a just appreciation of the circumstances of her people render practicable, and in such time and manner as His Majesty's Government may deem expedient. We are prepared to borrow in India as a war loan for His Majesty's Government the largest sum which can be raised, and to offer for this purpose terms no less liberal

than those which have been granted in England. If it should be found that Indian credit can also be usefully employed elsewhere we should gladly assent to its being so employed, and in so far as the aggregate funds which India can thus directly borrow for the use of His Majesty's Government constitute a contribution not adequately proportioned to her resources we propose that she should also undertake the service of a portion of the existing British war debt. In this spirit, and in the confidence that such an offer will evoke a generous response from the Princes and peoples of India, we have addressed ourselves to the task of defining practical possibilities."

The telegram went on to indicate that we were prepared to accept an ultimate total special contribution of £100 millions to the war, and to put forward proposals for increasing our resources in order to meet the consequent recurring liabilities which may be taken at £6 millions a year allowing for the gradual extinction of this debt by a sinking fund. Deducting from this £100 millions the amount raised by our borrowing in India for the benefit of His Majesty's Government, and by any special issues which that Government might think it desirable for us to undertake elsewhere, we would liquidate the balance by taking over a portion of the Home War debt.

His Majesty's Government have gratefully accepted this offer, and the £100 millions we are thus contributing amounts, I may point out, to nearly

double our total Imperial revenue as it stood before the war.

I shall set forth presently the way in which we propose to raise the resources necessary for the carrying out of this offer, so I confine myself now to a few preliminary remarks on the subject of next year's war loan. Our decision to borrow next year as freely as we can for the benefit of His Majesty's Government, which was announced in general terms a few weeks ago, is in no way inconsistent with the view we took in 1915 that such a course was then undesirable, for circumstances have now completely changed. In 1915 we had, as I have said, a large amount of temporary debt still hanging over us and could only meet the capital expenditure which was necessary even in war conditions by further borrowing on our own account in India.

We had also to consider the prejudicial effect on exchange which would be caused by borrowing a large amount in this country and remitting it Home, bearing in mind that we had had two recent exchange crises, necessitating considerable special sales of sterling drafts on London, the first shortly after the commencement of the war and the second in the summer of 1915. In short in regard to this and other alleged shortcomings our critics have not been in a position, as we and His Majesty's Government were, to take into account the various factors of the complicated situation. Now however we have to deal with an altered set of conditions. Thanks to our large surplus, the exercise of eco-

nomy in respect of current expenditure and drastic reduction of our capital outlay, we have been able to repay the whole of our large temporary borrowings; and as I have already said, to accummulate sufficient funds to finance next year's necessary capital outlay without further recourse on our own account to the Indian Market. The exchange position too is completely altered owing to the very large outlay which we have to make on behalf of His Majesty's Government in India and which they repay to the Secretary of State in London. At the same time such a loan will now strengthen our position here and will also give full opportunity for the patriotic feelings of those who desire to make some direct contribution to the carrying on of the war. I shall deal later with the character of the borrowing we thus propose, and will now proceed to discuss the Revenue and Expenditure estimates of the coming year.

Budget Estimate for 1917-18.

I will first examine the position with reference to the existing sphere of taxation and liabilities, leaving for subsequent consideration the special contribution we propose to make to His Majesty's Government in connection with the war, and the measures necessary to find the requisite means. On this basis, and assuming that the next south-west monsoon will be normal, the following statement brings out our Budget anticipations on the Imperial side for 1917-18, as compared with the Revised Estimate for the current year :—

[In millions of pounds.]

	Revised, 1916-17.	Budget, 1917-18.
Revenue ...	64·803	63·213
Expenditure ...	59·065	60·433
Surplus ...	+ 5·738	+ 2·780

That is, whereas we can look forward to an Imperial surplus of £5·7 millions this year, we can only expect about £2·8 millions in 1917-18; but we have now to take into consideration the fact that, as already explained, we propose to make, on behalf of India, a special contribution to the Home Government for the cost of the war which in one way or another will run eventually to £100 millions. That requires us to undertake with effect from 1917—18, an annual charge of about £6 millions. For the present this sum is taken against the Interest head, the question of its eventual allocation being reserved for further examination when the advisability of constituting a special War Contribution head will be considered.

In order to meet this liability we have thus to raise more than £3 million in additional taxation.

Before coming to the actual methods by which we propose to raise this amount, I will clear the ground by indicating other possible courses which we have not thought it advisable to adopt. *Prima facie* a natural, and administratively easy, way of raising fresh money would be by enhancement of the salt tax, since the tax, although it was slightly in-

-creased last year, is still below the figure at which it stood in 1905 and much below that in force up to 1902; and as I said in my last year's speech its increase is a legitimate measure when war or other financial dislocations come upon us. There would indeed in some respects be a special suitability, if the salt tax has at any time to be further enhanced, in choosing the present occasion; for, in the matter of assistance in the financing of this great war. I do not think that even the humbler classes in India can completely stand aside; and there is no doubt that, whatever appeal we may make to the small investor through suitably devised loan arrangements, the classes we can thus reach must, at the best, be relatively small compared to this country's vast population. This expedient of raising fund is, however, ruled out of account in present conditions by the high price of salt to which I have already referred. The present pitch of prices is itself an indication that a moderate duty is by no means the main factor in determining the cost to the consumer; but a moment when prices are abnormally high is not the time for adding to the tax as well.

Another possibility is the raising of money in excess of our existing land revenue through the medium of a special cess upon land. Such a course would be justifiable by war conditions, and by the further fact that, over a great part of India, it would merely restore the position which prevailed prior to the repeal of the Famine and Patwari cesses in the years 1905-1907. We have decided, however, that

this would not be at present desirable. Though we do not in any way admit that our land revenue assessments are other than most moderate, we prefer so long as this is possible, to leave the enhancement or imposition of special cesses as a sphere of taxation suitable for local boards, in order to assist these in developing such beneficent expenditure as that connected with education, sanitation, medical relief and local communications. It must be understood, however, that while we refrain on the present occasion from imposing additional Government taxation on agricultural incomes, we can give no pledge that we shall refrain from doing so hereafter, should future necessities oblige us to take this course.

Another method which would *prima facie* be appropriate to present conditions is the levying of a large excess profits tax on industrial and commercial profits which have been specially enhanced by reason of the war. On full consideration, however, we have decided that this would not be advisable. In the first place, as we know from the experience obtained in England, the fixing of what are normal profits and what consequently may be considered excess gains, which must vary with reference to particular trades and even in respect of the circumstances of individual firms or Companies, is a very difficult matter; and it has only been found possible to apply it with a fair amount of equity at Home—though even there, there has been much trouble and criticism in particular cases—by reason of the very efficient and elaborate income-tax machinery already existing, and by the appointment of special expert

boards of reference to deal with disputable cases. In India we lack both the elaborate administrative machinery and the material for impartial and authoritative boards. Secondly, an excess profits tax is obviously only a temporary measure, which cannot be continued when the war is over, whereas what we need is a more permanent source of revenue. While we have had consequently to reject this solution we shall be able to secure an appreciable portion of the excess profits that have lately accrued in connection with the war by the method of taxation I now put forward.

The New Taxation.

In the present year's Budget, we enhanced our rates of income-tax, aad these now run on a graduated scale from 4 pies in the rupee to one anna, which last sum becomes payable on incomes of Rs. 25,000 and over. We now propose to supplement the ordinary income-tax by a super-tax on the largest incomes such as has been in force in England for several years past. That is, the ordinary rates of income-tax will remain unchanged but people having incomes in excess of Rs. 50,000 per annum will pay a super-tax in addition. We thus leave the bulk of the existing assessees alone and lay the burden we are about to impose on the shoulders of the rich, who are best able to bear it, and many of whom have made large profits owing to the war.

The super-tax will begin, as I have said, in respect of incomes exceeding Rs. 50,000 and will

then be levied in an ascending scale as shown below:—

For every rupee of the first Rs. 50,000 of the excess, *i.e.* between Rs. 50,000 and 1 lakh—1 anna per rupee.

For every rupee of the next Rs. 50,000 of the excess, *i.e.*, between Rs. 1 and 1½ lakhs.—1½ annaa per rupee.

For every rupee of the next Rs. 50,000 of the excess, *i. e.*, between Rs. 1½ and 2 lakhs,—2 annas per rupee.

For every rupee of the next Rs. 50,000 of the excess, *i.e.*, between Rs. 2 and 2½ lakhs,—2½ annas per rnpee.

For every rupee of the remainder of the excess, *i.e.*, on everything over Rs. 2½ lakhs.—3 annas per rupee.

These rates will be in addition to the one anna income-tax, so that a person possessing an income exceeding Rs. 2½ lakhs will pay in all a rate of 4 annas per rupee (equivalent to 5s. in the pound) on that excess; while as regards each half lakh making up the first Rs. 2½ lakhs he will pay rates varying from 1 anna (*i.e.*, ordinary income-tax alone) on the first to 3½ annas on the last. He is still favourably situated as compared with the wealthy taxpayer in England whose ordinaryincome-tax would reach 5s. in the pound, while the super-tax might extend to anything up to 3s. 9*d*.

The introduction of a super-tax, assessed with reference to the individual's combined income from all sources, makes it necessary to improve our exist-

ing machinery so as to enable the assessing officer to require a person who may be *prima facie* liable to the tax to declare his income from all sources, under penalty in the event of false declaration. We were in any case meditating the introduction of this procedure in respect of the ordinary tax to avoid the leakage which is already recognised as taking place under the existing Income Tax Act. I shall accordingly propose legislation to-day providing for the levy and assessment of super-tax, and amending the existing Income Tax Act in the direction above indicated.

We desire on this occasion, as was the case last year, to confine our present legislation to what is essentially needful in order to carry out the scheme of taxation proposed. I fully recognise, however, that our income-tax machinery requires to be brought up-to-date in other respects also, so as to cope with the altered state of things which has arisen since the Act of 1886 was framed. I hope to be able to take this in hand before long, but it would not be fair to ask the Council to pass subsidiary legislation of this sort with the haste required on the present occasion.

Lastly, I may say that, while "Income-Tax" has hitherto been a divided head, the super-tax receipts are all required for Imperial purposes, and in order to avoid the complication of adjustments with the provinces of such as were effected this year in connection with the addition to taxation then made, we propose to place super-tax receipts under a special sub-head which will be entirely Imperial.

The materials for an estimate of the probable yield of the super-tax are not as adequate as we should have wished, owing to the fact that under the existing Act the profits of companies and interest on securities are assessed to income-tax at the source with reference to their ultimate destination, so that we have no particulars of their distribution between people who will in future be liable to the super-tax and those who will not be liable. On such information, however, as we can obtain, we take the probable yield at £1,350,000.

The next source from which we propose to raise revenue is the export tax on jute. This was imposed in the current year at the rate of Rs. 2-4-0 per bale of 400 lbs. in the case of raw jute, with a special rate of 10 annas per bale on cuttings; and as regards manufactured jute at Rs. 10 per ton on "sackings" and Rs. 16 on "hessians." Having regard to India's monopolist position in respect of jute production, which enables taxation to be normally passed on to the consumer, we propose to double the rates above mentioned, and thus to obtain an additional revenue of £500,000. This figure would have been higher but for the present freight and exchange difficulties and the recent restriction on export to the United Kingdom. In making this estimate, we have allowed for the exemption of jute, whether raw or manufactured, exported in pursuance of War Office contracts, and as we have done in the current year we propose to exempt from the extra duty forward contracts which have been entered into before the present date and

which do not contain a provision for enhancement of price with reference to any future increase of duty.

The taxation already described will yield us in all £1,850,000. The way in which we proposed to make the bulk of the remaining provision required is one which will, I think, be received with satisfaction in this Council and in the country generally, while the incidence of the tax will be of much more general application than that of the imposts above described. It will be remembered that, in introducing the Financial Statement for the current year, I said that we had been anxious to raise the duty on imported cotton goods, while leaving the cotton excise duty, which has formed the subject of such widespread criticism in this country unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government held that in the then circumstances such a course would be undesirable, and desired to leave the cotton duties question to be considered later on, "in connection with the general fiscal policy which may be thought best for the Empire and the share, military and financial, that has been taken by India in the present struggle." To day, I am able to announce that, in view of the taxation required to make our war contribution worthy of India and of the place we desire her to hold in the Empire, His Majesty's Government have now given their consent to our raising the import duty on cotton goods from 3½ per cent., as it now is, to 7½ per cent. which is our

present general tariff rate. The cotton excise duty will remain at 3½ per cent. There can be no question of our doing away with an impost which is estimated to produce about £320,000 next year at a time when we have to impose extra taxation. By this means we estimate that we can get an additional £1,000,000. I am sure that the action of His Majesty's Government, following as it does on their recent association of India with the special Imperial Conference called in connection with the war and the measures to be taken thereafter, will meet with the greatest appreciation in India.

For reasons which I explained in my last year's speech in connection with the increase of customs duties then proposed, the enhancement of duties above indicated in respect of imported cotton goods and jute exports must come into effect at once, and I shall during the present sitting introduce a Bill embodying the legislation required. The application of these duties during the current month will yield about £80,000, and the receipt figures of the Revised Estimate must be added to accordingly.

Finally, we have decided to impose, as a war measure, a surcharge on railwary goods traffic at the rate of one pie a maund on coal, coke and firewood, and two pies a maund on other articles. We have advisedly taken a low uniform rate, so as to avoid, as far as possible, the necessity for special adjustment in regards to short distances or particular classes of traffic. Some details in respect of this taxation are still under consideration, but the action necessary in connection with its imposition

will be taken as soon as possible. The yield is estimated approximately at £1 million, and we thus obtain the amount that we require to finance our war contribution, and leave ourselves with a surplus £130,000, which is little enough having regard to circumstances of the time.

I am now in a position to give a statement, superseding that shown in paragraph 51, which includes, as regards Imperial transactions, our war contribution of £6 millions and the additional taxation of £3⅛ million we propose to raise.

—	Revised, 1916-17.			Budget, 1917-18.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue ...	64.883	31.951	96.834	66.563	32.288	98.851
Expenditure ...	59.065	30.390	89.455	66.433	32.386	98.819
Surplus or Deficit ...	5.818	1.561	7.379	0.130	—0.098	0.032

A GENERAL SURVEY.

CHAPTER II.

The war gift of a hundred millions sterling to the Imperial Government forms the central theme of the Financial Statement presented this year by Sir William Meyer. Every item in the estimates has been framed to make that gift possible. The Government have thus been forced not to look to borrowed money for capital outlay, which is proposed to be met from the current year's surplus as well as the new taxes. The latter would not have been required either this time or for the year 1918-19 save for the War Loan, which will, in future, prevent the Government also from reducing the taxation imposed now or last year. The loan necessitates an annual outlay of more than six millions sterling in the shape of interest and sinking fund charges, thus devouring the major part of the proceeds which will be realised from the new taxes.

If the war continues beyond this year, the Government of India will probably be influenced to give greater assistance to the Imperial Government. Even if that is not to be, and assuming for the present that, when peace comes, a portion of the war expenditure additional to what is now proposed is not put on India, still our military burden will be very large. Since 1913-14, the military charges have

increased by about five millions sterling and it is doubtful whether they will decrease at the end of the war. [Unless the proposed federation of the world comes into existence, the British Empire will decide to maintain a far stronger army than before the war; and India must consider herself very fortunate if her military bill does not exceed what it now is. So under very favourable circumstances, the annual increase in the dead weight burden of India on account of the present war will be eleven millions sterling.

It is little use to ask ourselves whether we can bear so heavy a load. Perhaps we can; anyhow a decision on that point is not essential. The question at issue is whether with that burden progress is possible. Sir William Meyer was pleased to promise the other day that, after the War, progressive departments would not be starved. That is no doubt the wish of the Government; but will they be in a position to translate it into action? Whence is the money to come? The increase in the revenues, including the proceeds of the new taxes, may not be able to meet the eleven millions required by the war measures. Extra taxation will be essential if education and sanitation are to make headway. And will the Government consent to it? They declined to accept Mr. Gokhale's suggestion to levy an education cess. Will they impose additional taxes—after what has now been done—for purposes of the self-same department?

Next to the War gift the main feature of the Financial Statement presented this year is

the imposition of the new taxes only on the rich and middle classes. The tax on railway freights will no doubt touch the poor to some extent; but the increased incidence will be negligible. The only criticism which the taxes will evoke will be that justice has not yet been done to some Indian demands, notably in the matter of cotton exports. Probably the Government have not yet found themselves in a position to arrive at a decision. The salt tax is retained, but not increased. That is good news; but it was within the power of the Government of India to be yet more considerate. The salt revenue has been far in excess of the estimates, and since the financial position of the Government is admitted officially to be far from embarrassing, the increased duty imposed last year could well have been done away with.

The new taxes are expected to yield £3·3 millions, and the proceeds from those imposed last year brought in £4·8 millions. Thus the permanent burden of India has been increased by about eight millions sterling, if not more. Some of the new taxes will be probably reduced at the end of the war; but that is a very remote possibility; for, the gift of a hundred millions sterling to the Imperial Government will increase the interest now paid by this country by at least £6 millions. Thus, of the seven millions of new money, not more than two will be available for reduction of taxation or for increase of grants to education and other progressive Departments. Sir William Meyer was recently pleased to shower very generous promises

in that respect; but if they are to be fulfilled, India may be asked to bear an additional burden of taxes.

The most shocking passage in the Financial Statement comes at the end of the revised estimates published elsewhere. Sir William Meyer says: "Looking back to the Budget of a year ago, I should not admit that our caution was then misplaced." Most probably, the subordinate official who was entrusted with the function of drafting the statement appended those few words as a matter of routine. No other explanation is possible. Sir William Meyer expected £3·6 millions, and he was overcautious,as he himself shows to the extent of £1·2 millions or 33·3 per cent. The revenues exceeded, under all heads, his calculations by no less than 9 millions sterling—a very huge figure, without parallel even in Indian finance. Yet the country is asked to believe that he was not overcautious! And as usual his caution has been troublesome. The military charges devoured nearly half that increase, as usually happens in the case of all huge surpluses. Sir William Meyer has again committed the same mistake in framing the estimates for 1917-18, and we shall have to wait a year to see what loss it has brought to the country, which—it is needless to emphasise—is interested mainly in the expansion of what are generally called the progressive departments, which will have to live on starvation rations for one more year.

INDIA AND THE WAR BURDEN.

CHAPTER III.

The extent of the sacrifice which India is now asked to make because of the war is under-estimated in some quarters by following a very curious methed of comparing with hers the efforts made by the Colonies during the past two years. It is stated that India has been the last to make the financial contribution, and that even now what she is asked to do is not appreciable when her population and her resources are considered. That is a radically faulty way of arguing. It ignores, in the first place, the sacrifice which India has been forced to make in the past to maintain the military strength of the Empire, and it also ignores the extent of the trouble and loss which India will be obliged to face because of the present "gift".

For years preceding the war, India has been spending 30 crores of rupees annually to maintain an army which her own requirements did not demand. Moreover, the army was maintained on a system, the usefulness of which in the matter of reserves was obtained mainly by the Empire. India paid the cost of training; but when the training was complete, the army was taken away, a few years earlier or later, to other parts of the Empire. Thus India was compelled to make a huge sacrifice—

averaging in recent years to more than a fourth of the total revenues—for the permanent and double benefit of the Empire. And that burden was not shared to any appreciable extent by the Colonies. Only a few years ago, they did not spend even a million sterling for the military defence of the Empire. How has that difference affected the progress of the countries concerned? In India, about fifteen crores or more—half the total military charges—were wasted year after year so far as the progress of this country was concerned. The Colonies spent all their revenues for economic improvement. And India's sacrifice was far greater. She is a poorer country, and could, therefore, ill afford to spend so much for the Empire. While she was thus shelling out millions, the Colonies were pursuing a very selfish policy—so selfish as to ask England to take upon herself the task of defending them.

Thus India had been making a very huge sacrifice for the Empire long before the present war broke out. If only that drain had been curtailed, she could to-day have advanced or offered hundreds of millons sterling to pay for the war. For if that money had been spent on education or irrigation, our revenues to-day could have borne a loan of even a thousand millions sterling. The policy followed by the Empire towards India and the Colonies will perhaps be more plain if thus described. India was trained like a poor child, forced to earn a wage from early youth, and contribute it to the family expenses. Her income was thus kept low, and a

part of it was always demanded for the common fund. The Colonies were treated in quite a different way. They were allowed to develop as best they could, and were not asked to make any sacrifices for the family. In fact, the family suffered to promote their growth. They were thus permitted to develop huge incomes, and now, when the family is in trouble, they are asked for the first time to make a contribution. Is it a wonder that their share looks grander than that of India, whose growth was miserable, and whose income has, therefore, been that of a coolie as contrasted with the skilled capitalist Colony?

And these facts do not indicate all that India has done or is going now to do. By giving a hundred millions sterling, she has practically mortgaged her future. At the end of the war, she will find the military burden greater by at least eleven millions sterling, if not far more. Thus, for the present crisis, she gives up more money than may be required to make primary education universal and compulsory for all her children. What is even more tragic, she postpones considerably the day when that ambition of hers is going to be fulfilled. She has had to remain poor because of past contributions, and by the present contribution she has to continue the period of poverty and misery. Is that not a sacrifice with which the most veritable Shylocks must be satisfied? What more can be demanded of her? The War Loan forces on her a burden which will tax her stamina to the uttermost, and, to those who are acquainted with her poverty, it will not be surprising if under its load

she staggers to collapse, and a part of the burden is thus forced to be taken away in the interests of the Imperial family. The most ironical part of the whole transaction is calling it a "gift" from India—gift to which none of her representatives was asked to consent.

The Anglo-Indian agitation against the super-tax is still strong, in spite of the concession made by the Finance Member when the Bill was considered by the Select Committee. An impression is sought to be created that, if the tax is to continue, the future of certain important trades will be very gloomy. The aim in continuing this agitation even after the Bill was passed is clear. The Government of India is being influenced to reconsider the whole question, and, if possible, an effort will be made to secure an assurance during the Budget debate that the tax is permanent only during the period of the war, and that it will be reconsidered when normal times return.

The seriousness of this agitation becomes plain only when we note the full significance of the pledge given at Mr. Asquith's instance to the Lancashire millowners regarding the import duties. There is every chance of that tariff being taken away or modified, and if, at the same time, the super-tax question is to be reconsidered, the Government of India will lose a revenue of between two to three millions sterling per year. India has been asked to take up the war burden with the consolation that the taxes imposed this year and in March last will bring the revenues necessary to pay the interest and

sinking fund charges. Within three weeks from the date of that assurance, a situation is created which makes the country fear that, of the new taxes imposed, the most important two may be repealed.

Thus the reconsideration of these issues at the end of the war may compel the State to find out other ways of meeting the liabilities by the war gift. Whatever shape the new taxes may then take, they will materially postpone the day of plenty to the progressive departments. In peace times we cannot expect the Government to impose fresh taxes every year, least of all for such causes as education and sanitation. That is our experience of the past and we had recently the authoritative dictum that since Mr. Gokhale lost his Bill, nothing has happened to change the Government policy with respect to education. Such is the outlook created by the Lancashire and the Anglo-Indian agitation, and no more words are needed to show how gloomy it is.

THE WAR GIFT AND THE INDIAN STANDPOINT.

CHAPTER IV.

There is considerable difference of opinion on the way in which Pandit Malaviya and his colleagues in the Imperial Council acted with reference to the War gift. The country is surely grateful to them that they lodged their emphatic protest against the scant courtesy shown to them by the Government in arriving at a decision behind their backs. As Pandit Malaviya said, the Supreme Council had not in the past declined to do its duty to the Empire as the mouthpiece of of the country. It has done all that the Government itself felt it could do under the circumstances. In the light of such a record, there was no necessity of any character compelling the officials to ignore the chosen representatives of the people. They could have been consulted at least secretly, though it is hard to find reasons for such secrecy.

While the country is thus glad that the protest was made, many are unable to understand why the resolution was withdrawn without a debate. Pandit Malaviya himself must have doubted the wisdom of that expediency as soon as he resumed his seat. Sir William Meyer told him that his resolution would have had scant support and, in spite of the

Pandit's denial, that official and the Government probably view the withdrawl of the resolution from that standpoint. Even if that were not so, would it not have been in the interests of the country to know what the Government had to say on the resolution? Why was not the Council taken into the confidence of the Government? Lord Chelmsford told us the other day that it was his object to do that on every possible opportunity. If so, why this secrecy? Secondly, the conuty has yet to know why this abrupt decision to decide India's share in the War burden? We have now the authoritative statement that the Coalition Government under Mr. Asquith was in favour of deciding it at the end of the War when there would surely be more data to arrive at a fair settlement. Could not the decision be postponed until the Imperial War Council was given an opportunity to have its say?

The question might also be brought up whether there was any necessity for raising a War Laon here. If it were thought just that India should contribute a hundred millions sterling to the War expenses, the Government might then have promised to pay the necessary interest and sinking fund charges incidental to such a loan. The necessary money might have been raised elsewhere. This is the policy pursued by some of the Colonial Governments, and India might have followed suit with advantage. There is no lack of money in England and the latest loan will suffice the War needs probably until the conclusion of peace. At any rate, there is no such dearth of money there as exists here at present; and

by adopting the Colonial procednre, the rate of interest in this country would not have been increased to the extent it has now been.

All these consideration shows how unfortunate it is that theGovernment decided not to consult the people on the subject, and also that the Resolution moved by Pandit Malaviya was not discussed. Perhaps he and his colleagues thought that the only need under the circumstances was to lodge a protest and nothing more. If so, they were completely mistaken. Pandit Malaviya himself has urged that arguments which inflnenced the Government to resist the demand of Mr. Webb and his friends hold good even to-day. Evidently the Government do not agree to that. They think that circumstances have changed. How? Would it not have been useful to know the change and the reasons for it? It is true that the Government have levied additional taxation to such a huge extent as to meet capital outlay from the normal surplus; but that might have been attempted last year or the year before. We know of no development, nor has the Finance Member mentioned it, which made such taxation out of the question in 1915 and made it possible later.

There is of course considerable force in the argument that since the Government have arrived at a decision, the question is too delicate to be reopened. Is that so? Letus, however, bear in mind that no one desired Pandit Malaviya to ask for a division on his Resolution. What was desired was the debate to give an opportunity to the Finance Member or any other responsible official to explain the Government

case. In doing that, the Government would surely not have been placed in any embarrassing position. Pandit Malaviya withdrew his Resolution a little too early and thereby perhaps rendered a disservice to the Government itself. We now know only the non-official version of the incident and not tbe official story—at any rate, not thewhole of it. The debate would have very likely given that to the country and it is badly needed. Unhappily the agitation in the Commons too did not make good the omission by the statement which Mr. Chamberlain made on March 14th, when the necessary resolution accepting the gift was moved.

THE FINANCE MEMBER'S THREATS.

CHAPTER V.

Sir William Meyer has given a very curious explanation for not imposing a tax on War profits. The experience of England is said to have shown that it is very difficult to fix "what are normal profits and what may consequently be considered excess gains," and since in India the machinery to determine the amount of income to be taxed is very defective, he did not think it advisable to impose that tax. Moreover, he was in search for a "more permanent source of revenue," whereas the excess profits would end at the conclusion of the War. Both of these are extremely curious arguments. Simply because the exact amount of War profits cannot be fixed, the Government is not justified in giving up that huge source of revenue. If difficulty of determination be the criterion to fix any taxes, the Government of India will have to give up several of them, the most important being the land tax, the method of calculating which is admittedly unscientific and uncertain. Further, this is exactly the time when temporary sources of revenue ought to be tapped. Have not many departments been temporarily asked to starve, because of the present crisis? Would not the temporary taxes have saved them from that misfortune? The Irrigation Department need not have

been bled, and other progessive causes too could have been assisted.

The Finance Member finally attempts to console public opinion with the remark that the super-tax will deal with "an appreciable portiou of the excess profits". We do not know how it will. The super-tax will not touch those persons whose incom e is less than Rs. 50,000. Thus a shareholder in a jute mill, who but for the War would not have obtained more than Rs. 10,000 may receive, specially because of the export duty on raw jute, Rs. 45,000 in the coming year; but the Government of India will have no share ot the excess. It is understood that the super-tax will deal only with individuals and not with the companies as a unit; the inevitable consequence of this will be to free from just taxes a vast number of shaeholders in the joint stock companies which have mainly profited by reason of the War. It is difficult to guess at any reasons that can justify such a loss to the State; and since the Government has directly assisted some of those concerns to shake the pagoda tree, the attitude taken up by Sir William Meyer is far worse than indefensible.

We would not have drawn pointed attention to this injustice to the poorer taxpayers, but for the threat that the latter may again be called upon to make more severe sacrifices. It is evident from the Financial Statement that had it not been for the high prices ruling in the market, the salt tax would again have been increased. Even more ominous is the remark: "It must be understood that while we refrain on the present occasion from imposing additional

Government taxation on agricultural incomes, we can give no pledge that we shall refrain from doing so hereafter, should future necessities oblige us to take this course." A very cheerful prospect indeed for the agriculturist who has already to part with half his net income as taxes! The favoured shareholder of a joint stock company may amass thousands because of the War, and he will not be asked to pay more than a sixteenth of the same to the State; but the agriculturist who has been struck hard by the loss of foreign markets may be called upon to yield more than half. We do not think any country can supply a parallel to such a system of taxation. Even without it, the financial policy of our Government is unique in character; and if Sir William Meyer should carry out his threat in the next Budget, he will surely make financiers all over the world stare with wonder at decisions which they could never have dreamt of. We hope the Government of India will recognise that, whatever the credit the Finance Department may thus get for them, this is neither the time nor the country to indulge in such experiments.

A DOUBLE DEFECT.

CHAPTER VI.

The policy laid down in Sir William Meyer's recent Financial Statement is clearly open to objections : the Government have been overcautious with regard to the immediate outlook, and strangely enough, they have not looked sufficiently ahead. We have already explained how their excessive caution produced a huge surplus during the current year, followed, as usual, by a lavish expenditure under certain favourite heads, mainly the Military Department. As to the second defect, there is ample evidence in the Financial Statement to bear it out. Throughout its length, the language used is one of vagueness and uncertainty, except in one respect, viz, to make the people feel that the new taxes are intended to be permanent. Perhaps the Government do not know what they may be called upon to do in the near future, or what greater sacrifices they will have to demand from the people of India—thus acounting for the vagueness. But in addition to such uncertainty, the Government have handled cetain departments in a way which augurs very badly for the future of our finances. The idea never seems to have struck them—at any rate we find no evience that it has—that the additional revenue now obtained may become unbearable, unless it is

followed by an expansion, of the material resources of the people. Is the incidence of taxation to remain the same, or is it to be diminished by undertaking measures of economic value ? And we have already explained how, unless the revenues of the country are to be much increased, the Government will not have money for improving the progressive departments.

All these considerations demand very urgently that the Government should at once set to the task of reforming their financial position with an eye on the near and the distant future. They must take a sufficiently long view of the situation and prepare the way for increasing surpluses which must be earmarked for definite departments. The very least they are expected to do now is to arrange that the revenues of the contry will rapidly rise after the War without increasing the rate of taxation. Unless such steps are taken, the outlook is indeed gloomy if not dreadful. The successors of Sir William Meyer may find it hard to get the money to meet the demands created lavishly by the present regime, in which case the progress of the country will be stagnant for decades. Are the Government taking such a long view of the situation? There is no evidence, we repeat, to show that they are. We go further and contend that there is evidence enough to show that that problem does not seem to have received consideration.

For instance, let us analyse the policy pursued by the present regime in the matter of irrigation. We do not think any critic will deny the axiom that

funds invested in properly scrutinised irrigation projects bring more money to the country *and to, the State exchequer* than in any other department, That fact has been proved repeatedly, year after year, by the experiences of the Government of India itself. Yet how has Sir William Meyer of the present regime—we say "of the present regime" advisedly —treated that Department? On March 1st 1916, he undertook to grant £900,000 for capital outlay. What was spent was, however, less by as much as 33 per cent, and he proposes to give no more that £600,000 for the coming year. In this way the Government of India propose to decrease the outlay on the most paying of the departments under them, and it happens also to be the most useful department for the people. The reduction of grants is not due to absence of works to be undertaken; Sir William. Meyer himself admits that there are enough of them, enough to irrigate 9½ million acres at a cost of £35 millions.

We are aware that the Government are not in a mood to consider any financial claim other than those relating immediately to the War; but it is ridiculous to argue that when they hope to get a hundred millions sterling for the War gift, they will not be able to spare a third of a million for irrigation. And this is the very time when the grants to it ought to be increased. No better way is open to the people of India to secure more revenues than by greater outlay on irrigation and if, at the end of the War, the Government should be so fortunate as to have a Finance Member that is

capable of taking a sufficiently long view of the situation, he will surely deplore the want of foresight on the part of his predecessor that resulted, not in the expansion but in the reduction of that Department. Knowing how, where the masses are concerned, the Government of India move at a snail's pace, we shall not be surprised if the Government should take years to expand the irrigation Department to its normal pre-War strength. But that will not be enough to meet the needs then. We shall require a department thrice or four times as large; and in ignoring that necessity, Sir William Meyer has dealt a very cruel blow to the Indian peasantry, specially those who are now tormented by a fitful monsoon.

THE DANGER OF PIECEMEAL TARIFF REFORM.

CHAPTER VII

Whatever may be the excellence of some of the steps taken by the present Finance Member in the matter of reforming our tariffs, there can be no doubt as to the very palpable danger he has introduced into the administration of India by beginning a policy of piecemeal legislation. He introduced some measures last year, and once again he has secured the consent of the Supreme Council to a few more changes. This method of dealing with the fiscal problem of the country is open to very serious objection. In the first place, the measures are not based on any definite and considered policy. The Government have acted, broadly speaking, on the plea that India demands Protection; but since the expression Protection is capable of many interpretations, that plea is wholly groundless. Apart from all that, it is yet not known whether the fiscal policy of the Government will definitely be protective. We have had no authoritative statement on that point; on the other hand, we have been told that the whole question of fiscal reform will be considered at the end of the War.

Under the circumstances, it is ridiculous to infer that the new duties have been levied for any

more than revenue purposes; but is that the view held in the country? Our own representatives in the Supreme Council have been the first to create the misunderstanding. When last year the import duty on sugar was raised to ten per cent., it was welcomed as a measure of Portection to our indigenous sugar industry. Is that so? Have the Government committed themselves to that view? Have they given a guarantee that the increased duty will not be reduced or rendered worthless by the imposition of an excise tax for at least a few years to come? All that we have been told is that the tariff question will be considered at the end of the War; and that assurance does notgo far enough. The natural consequence will be to postpone the expansion of the sugar industry for the simple reason that the new mills may be ruined at any time by the abolition of the new duty. Hence the increase will in effect be no other than a revenue measure, compelling the people to pay ten per cent more for their sugar.

The present policy of piecemeal legislation is open to one other objection. The Governmant have changed the tariffs in respect to only certain articlas of foreign manufacture, and have not done so in the case of some others, a change with regard to which is demanded by the people. To give a very well-known example: the Government have increased the import duty on cotton goods, but have not imposed an export duty on raw cotton. And it is the latter which from every standpoint the country most requires. The duty would then have been paid by the foreign importer, and the local mill-owners,

having to pay less for their raw supplies, would have also been benefited. What the Government have done is to impose an extra indirect duty on the people, and the advantage to the mill-owners too has not been greater than would have resulted from the export duty. Thus the Government have lost an opportunity to tax the foreigner as is done in the case of jute, and have added to the burden on the people. Such an arrangement is unthinkable in any considered plan of tariff reform.

Thus the steps taken by the Government of India during the past two years have been defective in three ways: (1) The policy of the Government being uncertain, the taxes will not be relied upon by any capitalists, and thus will not encourage the growth of new industries; (2) the change of tariffs has not always been in the best interests of the people; at any rate, more useful alternative proposals put forward by our leaders have not been accepted; and (3) the tariffs have added considerably to the amount or indirect tax levied on all classes of people. From these conclusions it is clear that the tariff reform—if at all it can be called a reform—has not been along very acceptable lines. In fact, if one goes more minutely into the latest decisions, one is led to infer that a certain amount of expediency may have been at their bottom. The most influential circles in the region of non-official finance have been satisfied by the new changes. The jute mill-owners of Calcutta as well as the cotton manufacturers of Bombay have been satisfied, regardless, however, of the com-

parative benefit to the people in general. These two industries surely deserve encouragement; but should it be given at the expense of the people in general? So far at least as the cotton trade is concerned, we have seen that an alternative proposal of less inconvenience to the masses was actually put forward and rejected. And we owe all these misfortunes to the policy of piecemeal fiscal legislation, which Sir William Meyer has unfortunately introduced during the past two years.

RECENT TAXATION PROPOSALS.

CHAPTER VIII.

The following comments of "A Chronicler" in the *Commonweal* of April 6th are not without interest to students of finance :

How is it that the Government did not at an earlier date impose any of the new taxes levied this year or in March, 1916? The need for money has been very great during the past five or ten years. Whenever a non-official member has demanded more funds for any progressive department, even a very paying one like that of agriculture, the Government have excused themselves on the plea of want of money. They have declined to add to the taxes of the country even for so laudable an object as Elementary Education. Why is it so?

Before answering that question let us consider whether the new taxes are at all oppressive. If we leave aside the increase in the salt duty, the other taxes have not met with any opposition from the people. Of course a tax on raw cotton would have been preferable to an increase in the import duty on cotton goods, and in various other directions the new taxation proposals are surely susceptible of improvement; but those considerations should not blind us to the main one: viz., that the new taxes are not unwelcome. If they had been imposed two or five years ago to strengthen the progressive departments, the people of India would have welcomed

them. To make my position stronger in this respect, let me repeat what Mr. Gokhale said in his last Budget speech :

"I hold that we can raise a much larger revenue than we do at present from our customs without its proving burdensome to any section of the community. The possibility of raising revenue from certain sources, which at present yield nothing, must also be publicly examined."

If Mr. Gokhale had lived only a few months more, he would have seen the Government of India forced to accept his proposals; but the incentive to do that came from the War and not from the recognition of India's backwardness. That, in fact, is my main comment. The Government recognised in 1916 that certain useful sources of revenue could be tapped without any hardship to the poor. Why was not that discovery made before the War began? Was any enquiry made along the lines suggested by Mr. Gokhale? If not, how is the Government's attitude to be explained? Is it to be supposed, for instance, that the jute manufacturers *outside* India should not be taxed for improving education and sanitation here? The Government could have easily ascertained, if they did not already know, that a huge grant might be given to education by imposing an export tax on raw jute—a tax which would in no way harm India. Why was it not done?

It is, I confess, somewhat difficult to answer that question. The only explanation possible is that the persons responsible for the Government of this country did not recognise—it is doubtful whether they do even to-day—the extent of the urgency to

accelerate progress in agriculture or sanitation or education. If they had recognised that, they would surely not have failed to get the necessary money. There is ample evidence in support of that view. It was only when Mr. Gokhale systematically took up the agitation for more educational grants that the purse strings of the Government of India began to be loosed. Till then that department was finding it hard to obtain even a subsistence allowance. And the moment Gokhale's personality disappeared from the scene—followed unhappily by the diminution of the agitation in the Council—the Government resumed their old policy of marking time.

That is, to my mind, the most important moral to be found in the recent taxation proposals. The progressive departments could not get the necessary money all these years, not because it could not be obtained without difficulty but simply because the Government were not forced to find it. If there was such a compulsion, the necessary money could be easily found. In fact, it *has been found*, but not for the progressive departments. Thus as Mr. Srinivasa Sastri emphasised during the recent education debate, the Government can get money if it desires, for any department. So what is needed is the will to accelerate progress in those entrusted with the administration of the country.

Let me give one very recent instance to prove that. When Mr. Sastri moved a resolution for increased education grants this year, Sir William Meyer observed that the surplus budgeted for the coming year was too small to permit of any such

outlay. In less than a fortnight after putting forward that plea, the same Sir William Meyer has announced in the Council that he was over-cautious in framing the surplus, which he himself now expects to be materially larger. Why not give a portion of it to education? He opposed Mr. Sastri's resolution because there was no money. The Government has it now, why not increase the grants? The Finance Member has discreetly decided to be silent, showing again that what is needed in our administrators is a recognition of the urgency for progress.

IMPERIAL AND PROVINCIAL FINANCE

CHAPTER IX.

The distribution of the revenues of India between the Supreme and Provincial Governments has attracted much attention this year, especially because of the controversy as to who should bear the cost of expanding the utility of progressive departments like education. Provincial administrators complain that since their resources are very limited, they cannot accomplish more than they are already doing, but the Government of India are not willing to accept the responsibility. This unfortunate controversy, the result of which is to retard India's progress, is not confined to the Local and Supreme Governments alone. We find it in the dealings of the Provincial Governments with the District Boards, and they in their turn have not come to any settlement as to their own responsibilities and those of the Taluq Boards. So, from top to bottom, there is at present a tendency to throw the blame for stagnation in any progressive department of National activities on to the shoulders of the lower authority, which, in its turn, pleads that it cannot do better without greater financial assistance from the former.

It does not require any great intelligence to see that, if India is to progress, such a state of affairs

ought to be ended. How is that to be done? Taking Supreme and Provincial Governments into consideration, what is most essential is a settlement of their respective duties and responsibilities and a complete change in the attitude of both of the Governments towards the requirements of the country. They must proceed on the hypothesis that more rapid progress is essential, and their ways and means for the same should next be settled. Thus, in the matter of education, the Government of India must consider whether, at present, the rate of advance is satisfactory. If it is not, as is admittedly the case, they must see to it that the rate becomes more rapid. Now Provincial Governments complain that they cannot accelerate the speed. Consequently the Government of India have only two alternatives:—to increase the grants, or to demonstrate how Provincial Governments can with their own means show a better record. What at present happens is not that. The Government of India decline to give as much money as the Provinces say they are in need of; but at the same time they remain silent as to where the latter are mistaken in pleading their inability to go faster. That silence is positively unfair to the country, and so long as it is maintained, the Government of India cannot justly claim to have done the duty towards the people.

Let us now consider which of the two alternatives above described will have to be chosen. While admitting that the Provincial administrations have not been as assiduous as they should have been in speedily spending the whole amount of money placed at their disposal, a consideration of the full resources

so far earmarked for them leads us inevitably to the conclusion that the Government of India ought to be far more liberal. To examine whether or not that is so, let us go into the details of the Educational Department in which the amount of unspent grants has been the largest. Practically the whole amount of recurring grants has been digested by the Provinces. The lapses are mainly in the lump grants, and even they would have been largely spent but for the restrictions imposed by the War.

We do not, however, contend that the Provincial Governments have been faultless; they assuredly have not been so. But let us not forget that even if they had acquitted themselves as creditably as was within their power, the advance made by them would not have been material. Perhaps instead of twenty, about twenty-five per cent of the children would have been in schools. And that percentage will satisfy no Indian who is aware of the immense leeway we have to make up if we are to reach the standard attained by even the least advanced of the Great Powers.

We are forced to the same conclusion if we examine any other need of India. In the matter of medical relief or agricultural progress, the resources of Provincial Governments are surely not adequate. Thus the first step in reforming the finances of India must be to increase the share of the Provinces in the revenues of India. It is to the Provincial administrations that we have to look for the improvement of the material condition of the people. They are in charge of education, sanitation, medical relief, agriculture, industries—in fact every department of Na-

tional progress. The Government of India, on the other hand, are in charge of such departments as the military, and the railways; hence the importance of Provincial finance. In practice, however, we find the Supreme Government taking more and more money for its own needs, with the result that in such a year as the coming one, when it has been exceptionally generous, as is indicated by the grants of Rs. 30 lakhs to education, we find that the Provinces are estimated to have 32 millions sterling against 66 of the Supreme Government. This proportion is very unfair. The needs of India demand that at least half the revenues shall go to the Provinces and the other half go to the more or less unproductive departments of which the Supreme Government is in charge.

Nor is that the main complaint of the Provinces. Not only are they starved, but there is also no indication that their future will be happy, as is shown by the following figures:

	1907-08	1913-14	1917-18
		In Millions Sterling	
Imperial ...	46	54	66
Provincial ...	25	31	32
	—	—	—
Total ...	71	85	98

The advance has been miserable, especially during the past four years. Even taking the whole decade into consideration, the result is not encouraging. The expenditure of the Government of India has risen by twenty millions, whereas that of the Local Government has risen by merely seven.

The present proportion must be materially altered, so that the Provincial Governments may secure a far larger share of the revenues. In this connection it is also noteworthy that they obtain a share of revenue under those heads, the expansion of which is not quite certain in the future. For instance, the Provinces get on the whole about three-fourths of the revenue in excise, and that is a source which every self-respecting Indian is anxious to wipe off. Then, again, the Provinces get half the land revenue. There too the trend of Indian feeling is not for expansion. The burden on the land is considered unduly heavy, and the demand for lightening it is growing stronger in the country. The sources in which a rapid expansion is sure in the future are the railways, customs and irrigation; and except in the last, the Provinces have no share. There is no doubt much difficulty in apportioning the receipts, but it could be got over if the Government should decide to apportion half the total proceeds according to some definite proportion—say, on the population basis. Ultimately such a reform is inevitable, unless it be decreed that India is to remain for the future as backward as she now is. Whatever the procedure be in the distribution of more of the Imperial revenues to the Provinces, the problem as to the respective share of the Government of India and the Provinces must be taken up at once. It is considerably overdue and this has produced very harmful results. Whenever a surplus results, the Government of India loses no time to apportion it to departments of which it is in charge, such as the army; and the needs of the

people, which are served by the Provincial Governments, are rarely kept in view. The inevitable consequence of such a policy is to inflate the less useful departments. If, however, the distribution between the Imperial and Local Governments be less unequal, the latter will obtain a larger share of the surplus, and it will go wholly towards the expansion of the progressive departments. Unhappily the Government of India tenaciously sticks to every pie that it obtains at present; but that should only induce our leaders to strengthen the demand for redistribution.

PROVINCIAL SETTLEMENTS.

CHAPTER X.

One other problem has been agitating our leaders with respect to this division of the revenue between the Local and Supreme Governments. For a long time, the latter were given certain specific amounts to manage the departments entrusted to them Afterwards, their share was fixed for five years, next quasi-permanently. Even now, the arrangements are not wholly permanent or fixed. Sir Guy Fleetwood Wilson look a great step in advance in giving permanency to the contracts but he left a good deal to be unfinished. Not only should the contracts be permanent but their basis also altered, giving a far larger share of the growth in the revenues to the provinces.

In this matter we have the valuable assistance of a long discussion at the 1914 March session of the Supreme Legislative Council. Strangely enough, the speakers were then satisfied with putting forward their arguments only from the theoretical standpoint, seeking support now and then not from our experience, but from the writings of former civilians or reports of Commissions. Literature on this topic is now so extensive that the official and non-official spokesmen had enough matter

to rely upon on both sides and it may be remarked that the debate was not as instructive as we have been taught to expect from the speeches in that Council. To return to our subject, only two of the latest references to the Provincial Settlements will be here referred to. In the memorable despatch of August 1911, to which we owe the repartition of Bengal, the Government of India plainly laid down their aim of advancing gradually to provincial autonomy, which is quite unthinkable without the financial independence of the Local Governments. We are of course aware of the "interpretation" of this passage by Lord Crewe and also the non-committing reference to it in the Supreme Legislative Council; but is it worth our while to pay much attention to them? The "interpretation" of the Secretary of State was influenced to a very large extent by the temper of the Tory ex-proconsuls after the Delhi changes, and as to the latter explanation, there was nothing in Sir William Meyer's remarks to show that the Government of India, at the time of writing the despatch and even now, meant anything different from what it has been taken to mean by the people of India. The second equally forcible expression of opinion for the modification of the Provincial Settlements is contained in the report of the Decentralisation Commission of which Sir William was a member. The report said:

"It seems clear that as financial position permits, the resources of Provincial Governments will need to be increased to provide for the expan-

sion and improvement of local services. It may be, also, that the scope of Provincial financial responsibility will be directly expanded, e.g., irrigation might be made a more entirely Provincial item than it is at present. This increase of regular Provincial revenues should, in our opinion, be met by gradually provincialising heads of revenue which are now divided and for which the Provincial Governments must always be specially responsible, such as forests or excise."

But whatever be the support which such authoritative writings give to the reformer, it is better to rely more on our experience, especially in the present instance. The past four years have witnessed a considerable advance in certain directions closely related to the division of revenue between the Supreme and Local Governments, and the Decentralisation Commission was ignorant of these vast modifications at the time of drafting their report. One other reason why reference to such writings should be discouraged is that equally strong, if not stronger, assistance is available on the other side and few pause to consider how far it is applicable to present day conditions. As already stated, the present policy of the Government has created a situation which will compel them, unless they call for a halt in educational or sanitary advance, to modify the Provincial Settlements even without any external pressure and the most advantageous course for the popular representatives is therefore to pursue this clue and make the Government realise early how, unless they accede to the Indian demand, they will

get themselves drawn more and more deeply into a financial labyrinth from which it will be extremely difficult to extricate themselves without any violent operation.

The following passages taken from a speech given in 1911 indicate Mr. Gokhale's views on this subject.

The Government of India has at its disposal too large a share of the growing revenues and its expenditure is principally confined to the army and to a few services which are directly under it. The result is that while there is a continuous tendency to spend more and more on the army, after those claims are satisfied, large surpluses accrue to the Government of India and when these surpluses are realised the Government doles out a portion of them to the provinces. Now the provinces habitually expect these doles and the expectation of the doles is thoroughly demoralising. If therefore you want any element of permanence in your contracts, it is necessary, first of all, to see to it that the Government of India has no large surpluses to dole out to the provinces and this can be pursued only by reducing the resources which are at present at the disposal of the Government of India. What I propose is that instead of receiving its whole income from growing revenues, the Government of India should receive fixed contributions from Provincial Governments, say up to about one-third or one fourth of its revenues, the other two thirds or three fourths being derived form growing resources ....This will reduce the possibility of large surpluses being

realised by the Government of India and diminish the chances of doles being given to the Provincial Governments. As I have already said, the policy of doles, which has been condemned by successive FinanceMinisters and also by several members of the DecentralisationCommission, is a thoroughly demoralising policy and if you want any strong financial responsibility to be felt by provincial Governments and the doctrine of contractual responsibility to be strictly enforced, you must see to it that this practice of the Governments of India giving doles to provincial Government year after year is stopped—indeed rendered impossible.

"My proposal therefore is this: that certain principal heads should be provincialised straight off (and not shared by the two governments as at present.) I would begin with land revenue, excise and forests, making them over to Local Governments and such Local Governments as would get from them more than they actually require just now should be called upon to make fixed allotments to the Government of India. As the Government of India's revenue from its own sources such as customs grows, more and more of the other heads should be provincialised. So far the advance has been from centralised finance to decentralised finance. When the process of decentralisation is completed—and we are yet a good way from completion—we have to advance from that to federal finance which should be our goal."

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OUR NET REVENUES AND HOW THEY ARE SPENT

CHAPTER XI.

According to the Financial Statement of Sir William Meyer, the revenues of the Government will next year, approach the imposing figure of a hundred millions sterling. If, however, we go into the figures in detail, our revenues, calculated net as they should be, will be found to be much less. And but for the simplifications introduced at the instance of Mr. Gokhale, the next year's totals would have been far greater, perhaps a hundred and fifty millions. Such were the official ways of framing the Budget till 1907. The gross receipts were then being stated under the revenue heads in such commercial departments as railways and irrigation, and the working expenses were put down under expenditure, with the result that the figures on both the sides reached a huge total. The object in framing such a balance-sheet is said to have been a desire to advertise the growing prosperity of India—a manoeuver which was greatly assisted by the increasing railway receipts, accompanied, of course, by higher working expenses. Mr. Gokhale's persistent demand influenced Sir. Edward Baker to introduce some reforms, but even to this day, the Budget remains a misrepresentation of the actual revenues of India. How far that is so will be

evident from the following figures taken from official figures for 1913-14:

	Receipts	Charges	Net Revenue
		in millions £	
Principal Heads of Revenue ...	53·7	9·2	44·5
Interest ...	1·3	1·5	—0·2
Posts and Telegraphs	3·5	3·2	0 3
Mint ...	0·3	0·1	0·2
Civil Departments ...	1·4	17·9	—16·5
Miscellaneous ...	0·7	—	0·7
Railways ...	17·6	12·8	4·8
Irrigation ...	4·7	3·5	1·2
Public Works ...	0·3	7·0	— 6·7
Military charges ...	1·3	21·2	—19·9

The procedure followed by the Government of India is obviously absurd. Twenty-one millions are spent on the Military Department and one million is received back in some shape or other, and that one million is put down under the revenue heads, to swell the total. Equally imaginary are the revenues under Public Works, Civil Departments and Interest. Then under Railways and Irrigation, the Government ought to show the net receipts as is the cases in countries where public opinion is stronger, say in Japan. Our railways and irrigation works are like mortgaged property, and the income we get goes mainly into the pockets of those who advanced money on their security. The Government can excuse their present arrangement only in respect of Posts

and Principal Heads of Revenue, and even there, the only argument in their support is the procedure adopted in England. If therefore the revenues of India are calculated as they should be, the revenue sheet of the Budget of 1913-14 will appear thus:

		In Millions £
Principal Heads of Revenue	...	44.5
Post and Telegraph	...	0.3
Mint	...	0.2
Miscellaneous	...	0.7
Railways	...	4.8
Irrigation	...	1.2
Total	...	51.7

Our revenues are thus only two-thirds of what they are advertised to be by recent Finance Members, and less than half the total as put down by the predecessors of Sir Edward Baker.

It should not be supposed that in asking for such net estimates of National revenues, Indian leaders are influenced by sentimental grounds. It is needed, in the first instance, for purposes of a correct comparison of our resources with those of other Nations, and secondly to indicate the way in which they are here spent. The *net* revenues of Great Britain and Ireland amounted to £166 millions for a total population not amounting to even a fifth of that of British India. Moreover in no other part of the world do we find the incidence of revenue so high as in this country, which has to pay a land tax rising as high as 50 per cent. of the net income.

Do not the figures show the abject poverty of India? It is to be further noted that England did not derive any revenue before the War from such commercial services as Railways.

We shall now proceed to consider how these net revenues are spent, and the figures we have given above relate to the last year before the War. Let us first discuss the cost of defence. Out of 51 millions India had to spend nearly 20 on the Army, leaving aside 31 millions all other functions of the State. In England only 74 millions were spent on both the Army and the Navy, and of the balance of 92 millions nearly 39 millions were spent on education (18·7) old age pensions (12·6) and the Insurance Scheme (7·5). The Government of India spends not a pie on the last two services, and the educational grants were only 3 millions sterling in 1913-14. Thus for what are called the ministrant functions of the Government, where the expenditure in England is about a fourth of the net revenue and £0-17-0 per head, in India it is about a twelfth, at any rate not more than a tenth of the net revenue and per head of the population, it amounts to 5 pence! That gives us one index of the military burden on India, and of the costliness also of the Civil Service. The net charges in 1912-14 for Civil Departments in Britain was about thirteen and a half millions, including the cost of Foreign and Colonial Services which India is not burdened with. Thus the administrative services did not cost England more than a twelfth of the net revenue, whereas in India, they amounted to 22 millions out

of the total of 51. In other words whereas defence and administrative charges came to about half the net revenues in England, they amounted to 80 per cent. in poor India, The picture is incomplete unless we take note of what the local bodies too are doing in England and India towards improving the moral and material condition of the people. The local rates there contribute nearly 17 millions for education alone, thus bringing the educational grants from the revenues, local and national, to £ 35 millions or to nearly 15 shillings per head. In India the educational grants of local bodies amount to practically nothing and the total grant per head does not even then come up to 5 pence or one-thirty-sixth of what it is in Britain. Further comparison is superfluous.

We fully recognise that India is a poor country and also that the cost of educating a child here is far less than it is in England. Still the above figures supply conclusive evidence that the burden of the general administration and defence are decisively crushing in India. The United Kingdom, with a huge unproductive debt of 660 millions, was finding it possible before the War to spend about a fourth of its revenues for the material and moral improvement of its people. India has happily no unproductive debt. Its borrowings bring a decent net return to the State; yet her revenues are so much consumed by its "police functions" that it cannot spend even a tenth of them for the advancement of the people. That is the moral to which we are led by a study of our net revenues, and every Indian anxious for the progress of the

Motherland must always judge the financial policy of the Government by it. Every one of our financiers has drawn attention to it, though without avail. It was put forward very forcibly by Mr. Gokhale in his last Budget speech. He said :

"A top heavy administration, much too costly for our resources, a crushing weight of military burdens, and a scheme of taxation which, though not much more burdensome in its total incidence than in other countries, presses much more heavily on the poorer than on the middle and upper classes of of the community, these are the outstanding features of our finances......The questions that require specially to be considered are how to adjust our old taxation so that its incidence should press less severely on the poorest classes ; how to widen, if necessary, the present basis of taxation so that more money may be found for education, sanitation and similar services ; in what directions expenditure must be cut down and in what directions it must be increased."

SOME MISCHIEVOUS WAYS OF PROVINCIAL FINANCE.

CHAPTER XII

By a clever diplomatic move, some provincial Governments have managed to throw all the blame for the starvation of the progressive departments on the shoulders of the Imperial Government. No provincial Finance Member fails to complain against the paucity of funds placed at his disposal, and he attempts also to create the impression that his Government has done all that it could do with the resources at its disposal. There is a fair amount of justification for it; but the provincial Governments are surely not guiltless. They have been, constantly and in spite of warnings, following a policy which gives the Supreme Government a very convenient handle to withhold further grants. Punjab affords a very good instance of such mischief. It went on starving the progressive Departments to such an extent, in spite of large grants from the Government of India, that in 1914-15, it found it possible and convenient to hand over a crore of rupees to the latter in return for an annual grant of 3½ lakhs!

Such has been the persistent policy of local Governments. They rarely spend the full amount of money placed at their disposal, and thus enable

the Supreme Government to exclaim that the Provinces have more than they can spend. That is by itself very harmful to the progress of India. The Supreme Government is thereby enabled to spend less on the departments that most stand in need of expansion; to that extent the people of India suffer. What is more noteworthy is the way in which such harm is inflicted on the country. Here it is. In their Budget estimates, the provincial Governments promised to spend 47·7 crores of rupees in 1915-16. Eleven months later, they told the people that the expenditure would be 46·9 crores. This is the assurance given in March, 1916, when they were aware of the course of events during at least the previous ten months. What they actually spent was 46·4 crores. Thus, in practice, they failed to spend 1.3 crores of rupees, and that in spite of the encouraging assurance, after ten months of experience, that the lapse would not be more than 80 lakhs.

To understand the full extent of the harm thus done, we have to take into account one other feature of provincial finance—the overcautious way of framing estimates of revenue. For instance, they told us in March, 1915, that in the next year they hoped to get 44·5 crores of revenue. In the light of experience, they did not feel it necessary to revise that figure at the end of the year, but we now learn from the Accounts that the receipts were actually 46·6 crores, or two crores more than the estimates. Thus, while they did not spend as much as they promised to do, they were extremely over-

cautious in the estimates of the revenue, and a false impression was given to the country in that respect, even after eleven months of experience. We do not contend that they did it with any motive. The reason seems to be that our financial affairs are entrusted to incompetent officers.

We shall sum up the above particulars in this table for two years.

		1915-16	1916-17.
RECEIPTS		CRORES.	
Estimates	...	44.5	44.3
Latest figure	...	46.6	47.9
Difference	...	2.1	3.6
EXPENSES			
Estimates	...	47.7	46.4
Latest figure	...	46.4	45.4
Difference	...	1.3	1.3

The following inferences are obvious:

(1) The estimates proved incorrect to the extent of 3.4 crores in 1915-16 and 4.6 crores in 1916-17; perhaps the final figures for this year, when they are published in March next, will show a greater difference.

(2) They were overcautious in the estimates of revenue for 1916-17 in spite of a striking difference for the previous year.

(3) While the receipts for 1916-17 were the largest recorded, the expenditure was the lowest, thus considerably swelling the closing balance beyond comparison.

(4) Expenditure has been steadily falling for the past three years:

1914-15	...	48.8 crores
1915-16	...	46.4 crores
1916-17	...	45.4 crores

And this is how the provincial Government have conducted themselves when the receipts have gradually risen from 43.7 crores to 47.9 crores.

A more unsound management of our finances can hardly be imagined.

Thanks to the amount of attention paid to the proceedings of the Supreme Legislative Council, we are apt to forget that to the country provincial finance is of far greater importance. It is the Provinces that are entrusted with the progress of education, sanitation, agriculture and other useful departments. So if provincial finance is mismanaged, the country suffers very badly. We shall give one typical instance. Bengal is in the mortal grip of malaria. Bengalis have thereby become a dying race The Province is so water-logged that only drastic sanitary measures can save it. Yet how are its finan-. ces managed? It began in 1915-16 with an opening balance of only 158 lakhs, and it proposes to close the next year with a huge balance of 259 lakhs—in two years the Province had added one crore to its stagnant balances when malaria is tightening its hold. Bengal is now in a position to spend a crore and a half on its sanitation, but does not spend it.

We shall not continue this melancholy tale. Enough evidence has been produced that the Provincial Governments have obviously failed to make

proper use of the money. To add to the mischief, the estimates are generally framed in such a way as to disarm criticism. Promises of greater expenditure are held out—but not to be redeemed in full. The estimates of revenue are framed with undue caution and the impression is created that the Provinces are willing to do their best. But there again the final figures tell a different tale. In spite of such financial tricks, a comparison of the statistics in detail for a number of suceessive years supplies all the necessary evidence to expose the unsound ways of the provincial Governments; and it is regrettable that the mischief is not brought home to those concerned as effectually as it should be.

THE TREND OF INDIAN FINANCE.

CHAPTER XIII.

Full five years have passed away since the Hon. Mr. Gokhale demanded an enquiry into the trend of Indian finance with a view to provide increasingly large grants for departments looking after the material advancement of the people and to secure a diminution of the burden on the poorer classes on whom the incidence of taxation is now admittedly far greater than on others who can bear it with less suffering. Mr. Gokhale also indicated, in that memorable utterance, the lines along which, in his own opinion, the future financial policy of the Government ought to be directed. Owing to the pressure of War, Sir William Meyer has been compelled to accept some of his suggestions, but we have not had a statement defining clearly how the ideals suggessted by Mr. Gokhale would be realised.

The present financial deadlock has been clearly explained in these pages more than once. The Defence and Administrative Departments of the Government swallow so huge a portion of our net revenues that barely a tenth of the same is available for such causes as education, agriculture and sanitation. The problem is: How are we to secure more money for them? The Government have told us that, at the end of the War

those departments will receive better grants, but not a word has been stated as to how the necessary money will be obtained. The conditions introduced into our finances by the War may compel the imposition of additional taxation, and we have clear hints to that possibility in Sir William Meyer's latest Financial Statement. Under the most favourable circumstances, the country will merely be able to avoid a deficit in the immediate future, and any further expansion of our revenues will be out of the question unless the country is prepared to put up with additional taxation.

Let us now digress for a moment to consider how much money will be needed to satisfy the minimum demands of the people in regard to the progressive departments. First, the introduction of universal primary education will demand four to six millions sterling. And that is not the only fresh outlay which the Education Deptrtment will require. The question of improving the teaching profession—which has been just touched in this year's Budget—will involve a considerable outlay and it will be disastrous to neglect the demands of secondary and higher education. Taking therefore a period of ten years, the Government will be compelled to provide at least six millions more. Next under agriculture. The needs of the country are numberless in that direction, and it will be ill-becoming our rulers, who proclaim to be more solicitous for the welfare of the masses than their own educated countrymen, if the Agricultural Department should continue to be starved for years to come. At present the State is

not spending even a million sterling on it, including the cost of agricultural instruction. On a very modest calculation based on some of the speeches of the Viceroy himself as to what he is anxious to do during his own term of office, the Government of India will have to prepare themselves for an expenditure of at least three millions within the next five years. Coming to the third urgent need of our masses—sanitation, the requirements of the country are indeed limitless. Bengal alone will demand an expenditure of two to three millions per year for a decade at least. U. P. and the Panjab demand almost equal attention and the other Provinces are surely not very happy. Under the circumstances, including the need under medical relief, it will be unreasonable to estimate the annual minimum expenditure at less than five millions more. At present these two departments together receive a starvation ration of a million and a half.

Thus our financiers must find ways and means for an increased grant of about fifteen millions on the progressive departments in the next few years. How will it be obtained? That is the most important practical problem in Indtan finance, and it will be disastrous to postpone its consideration.

Only two alternatives are open—retrenchment or additional taxation. The former is out of the question, specially after the pruning executed during the War. So India will be compelled to put up with fresh taxes. What are they to be? Before examining that question, we desire to indicate two

means by which the Government of India, if it is bold enough, can secure a decent increase in its revenues without adding to the worry of taxes now levied: (1) State management of railways, and (2) the regulation of religious endowments. By the former, they will save for themselves at least as much money as now goes out of the country as profits of the managing companies—profits for which no equivalent services are rendered, and for which the Government will have to undertake no fresh expenditure. Other improvements too may be effected with a view to increase State receipts from railways even if that were not feasible at once, the Government ought to save the country at least that much of the money which now goes out as company profits. Secoudly, if the Government is bold enough, there is no obstacle to the utilisation of the surpluses profits of our religious and charitable institutions, in such causes as education or medical relief. And the Govrnment will surely have the courage to utilise them, if the Post-War Reforms add to the power of the people in shaping the administrative policy.

If these two means are not to be availed of, the country will have to put up with heavy additional taxation, and the only suggestion we can make in that respect is that the new taxes may be put as far as possible on the foreigner. As a huge producer of raw products, India is in a somewhat favoured position, if the Government were National, and strong enough to exploit the rest of the world. The War has already shown the way. The duty on jute exports is a levy on the foreign world for the advan-

tage of India; and the foreigners have no option but to put up with it. The Government and our leaders must now consider whether that policy is not capable of expansion. We believe it is, and that opinion is shared by many of our leaders, including Mr. Gokhale. The question should now be taken up for consideration, especially as the Imperial Government proposes to reconsider it at the end of the War for other reasons. If the Government of India will go to the length demanded by the people, the customs duties alone may be relised upon to give the required fifteen millions within ten years.

We have not here enquired whether the natural increase in revenue will not assist the Government in giving larger grants to the progressive causes; and the reason for that omission is plain. Past history has shown that the growth of the administrative departments demands most of that increase, and there is no reason why, at this stage in our political development, we should hope for any other experience in the immediate future.

INDIA'S MILITARY BURDEN.

CHAPTER XIV.

The military burden of India will come up for consideration at the end of the War for various reasons. In the first place, our leaders will find it essential to request a reduction of the annual expenditure, which is now nearly six millions in excess of what it was in 1913-14. The bitter lessons taught by the early phases of this War will also lead British statesmen to pay greater attention to the defensive forces of the Empire, and unless the Powers consent to the formation of a League to avoid War, the British Empire will be compelled to spend more on its armaments than in previous peace years. The Colonies, who had then been pursuing a very selfish policy, will have to come forward with offers of material assistance; but still, there is every chance of India too being asked to add to her military expenditure. For these reasons, educated India should be thoroughly equipped with full information on the subject, lest our interests should continue to be ignored by the Imperial Government.

Whatever may have been the considerations guiding the military policy of the Government before Lord Curzon set his foot on India, during his regime our army was looked up to for maintaining the status of the Empire in the East. For

instance, Sir Edmund Elles, the Military Member of the time, was pleased to observe: "It is, I think, undoubted that the Indian army in the future must be a main factor in the maintenance of the balance of power in Asia; it is impossible to regard it any longer as a local militia for purely local defence and maintenance of order." Lord Curzon, himself, was even more plain in his explanation. He said:

"My own view of India's position is this: She is like a fortress with the vast moat of the sea on two of her faces and with mountains for her walls on the remainder. But beyond those walls, which are sometimes of by no means insuperable height and admit of being easily penetrated, extends a glacis of varying breadth and dimensions. We do not want to occupy it, and we also cannot afford to occupy it, but we also cannot afford to see it occupied by our foes. We are quite content to let it remain in the hands of our Allies and friends; but, if rival and unfriendly influences creep up to it and lodge themselves right under our walls, we are compelled to intervene, because a danger would thereby grow up that might one day menace our security. This is the secret of the whole position in Arabia, Persia, Afghanistan, Tibet, and as far east-wards as Siam. . . . . And the whole of our policy during the past five years has been directed towards maintaining our predominant influence and to preventing the expansion of hostile agencies on this area which I have described."

In fairness to the British Rulers, it must however, be added that the guiding principle of the

Government military policy was far less ambitious in previous years. Lord Mayo was emphatically against adding from Indian revenue "one farthing more to military expenditure than the safety and defence of the country absolutely demand." Equally straightforward was the attitude of the Army Commission of 1879, but the rise of the Imperialist Conservatives in England and the growth of armaments in Europe compelled India to sacrifice more than her own requirements necessitated.

We do not think any critic now denies the continuation of the Curzonian policy right up to the beginning of the present War. And we had three distinct instances to show that India did not require so huge an army. The early years of the present century witnessed the utilisation of a substantial position of the army of the Imperial duty outeside India, and though one of those years witnessed a severe famine, public peace or our frontiers were at no time in danger. A more striking illustration is given by the part played by our army—Indian and European—in the current War. As Lord Hardinge has himself told us, at one time almost the whole of our forces were outside the country, and though German intrigue was then at its worst both in and near India, all went on well.

These considerations raise a very important issue. Since our army is not required wholly for the needs of India, should this country bear its whole cost?

The second question which we shall have to consider very closely is whether the money we spend

on our army is utilised to the full. On this point, the following passage from Gokhale's speeches states the Indian standpoint :

"Our army is for all practical purposes a standing army, maintained on a *warfooting*, even in time of peace. It is altogether an *inexpansive* force, without any strong auxiliary supports in the country such as exist in European States, and its strength can be augmented only by an arithmetical increase of its cost. In western countries and even in Japan which has so successfully copied the western system, the establishment maintained in times of peace can, owing to their splendid system of reserves, be increased three, four, five, even six times in times of war. Japan, for instance, which spends on her Army in times of peace about one-fourth of what we spend, has a peace establishment half our own, and mobilise in times of war nearly double the number of men that India can. The British troops in this country are under the Short Service system, but owing to the peculiarity of the situation, the main advantage of Short Service, viz., securing for the country a large body of trained reservists—goes to England, while all the disadvantages of the system—the paucity of seasoned soldiers, increased payments to the British War Office for recruitment charges, and increased transport charges—have to be borne by us. The Native Army is in theory a Long Service army, but it was calculated by the Simla Army Commission, on the basis of the strength which then existed, that as many as 80,000 trained native soldiers obtained their discharge and returned

to their homes in ten years' time. And the formation of reserves was proposed by the Commission so as to keep the greater number of these men bound to the obligations of service and also in the hope that the reserves so formed in time of peace might "enable the Government to reduce the peace strength of the Native Army." The Commission apprehended no political danger from such a restricted system of reserves, and it was calculated that the proposed reserves, if sanctioned, would absorb about 52,000 out of the 80,000 men retiring from the Army every ten years. Acting on this recommendation, Lord Dufferin's Government decided on the formation of such reserves and proposed to begin with two kinds—regimental and territorial reserves—of which the latter system was naturally better suited to the circumstances of such a large country and would undoubtedly have succeeded better. But the India Office, more distrustful in the matter than the men on the spot, disallowed the formation of territorial reserves, with the result that our reservists to-day do not number even 20,000 men. Practically, therefore, we have to place our sole reliance on a standing army and while the plan is, financially, the most wasteful conceivable, even as an organisation of National defence, it is radically faulty. No pouring out of money like water on mere *standing battalions* can ever give India the military strength and preparedness which other civilised countries possess, while the whole population is disarmed and the process of demartialisation continues apace. The policy of placing the main

reliance for purposes of defence on a standing army has now been discarded everywhere else, and at the present time India is about the only country in the civilised world where the people are debarred from the privileges of *citizen soldiership*, and from all voluntary participation in the responsibilities of National defence. The whole arrangement is an unnatural one; one may go further and say that it is an impossible one, and if ever unfortunately a day of real stress and danger comes, Government will find it so."

The extent of the wastefulness was pointed out by him in a subsequent speech. "Japan's military budget for the army is only 37·3 millions yen per year, or a little over six crores of rupees. And for so small an expenditure, she has a standing army of 167,000 men with reserves which can rise to over 600,000 in times of War. We spend nearly six times as much money a year and yet, in return for it, we have an inexpansive force of 230,000 men, with about 25,000 Indian reservists and about 30,000 European volunteers!"

Mr. Gokhale's warning was not heeded, and, as a result, India could not put more than two lakhs of men into the field in 1914; but if his suggestion had been accepted, India alone could have given more than 3 million men. It is questionable whether with so huge a reserve in India, the Kaiser would have ever decided upon War!

Though late, the Government have now recognised the need to listen to the Indian request, but yet they have not been as generous and statesmanlike

as the occasion demands. However, before proceeding further with this theme, we shall briefly discuss the share of the military department in the revenues of India.

Thirty years ago our army was content with a modest sum of 17·9 crores. The Russian scare was responsible for a severe increase which brought the figure to 22.2 crores in 1888—89. Thereafter, there was a steady but not any suddenly large increase until, in the early days of Lord Curzon, the expenditure reached 28 crores. Then Lord Kitchener appeared on the scene and his reorganisation scheme again inflated the grants, so that the end of 1906-7 brought them to 32 crores. With the cessation of non-recurrine grants, the figure slightly went down, and the year previous to the War witnessed the fall of the curve to as low as thirty crores. What next happened is of too recent a date to need recapitulation. The net expenditure in 1917-18 is expected to reach 39 crores. What is noteworthy in connection with this increase, is its rate as compared with the rate of expansion of our net revenues. From about below a third, which it was thirty years ago, it has now reached half the net receipts of the Government which, in turn, shows to what extent the progress of India has been hampered by the growth of military outlay. Till only a few years ago, India was the only country to spend a fourth of its total revenues on it, so that not only has it been uniformly a heavy burden on the revenues, but its weight has been growing relatively heavier.

How can this burden be lightened? Two alternatives have been suggested: England to pay a part of the expenditure; and the creation of a large reserve in India. Surely, the latter alternative is the more acceptable and a beginning has already been made in that direction by the recent Defence of India Force Act.

Without making any pretence to possess expert knowledge, let us broadly examine to what extent the army expenditure can be reduced in India without courting any danger. From the *Statesman's Year Book* we find that in 1913-14 with an expenditure of less than ten millions sterling—ordinary and *extra-ordinary*—Japan maintained an army, the strength of which was as follows :

Peace strength	...	250,000
War strength	...	600,000

These were supplemented by two reserves, one for making good the waste of War, who were kept thoroughly trained, and another force, meant for Home defence, into which passed all trained Japanese after the age of 38. Thus, at any moment, Japan possesses more than a million men fully trained and the cost is ten millions.

Before the War, the Government of India was content with an army of 300,000 men including reserves and volunteers. They should, therefore, not be dissatisfied with three times as huge a force for War purposes and an army as big as the present one in times of peace. So, if England will pursue in India a policy as natural and economic as that followed by the Japanese, the military budget at the

end of the War ought to be reduced by 15 millions sterling. This calculation has not, however, made provision for the increased cost of a European force. It must be the policy of the Imperial Government to reduce its size as years pass on, and even if that were not possible, the creation of a Citizen Army will permit a reduction of the military charges by ten to five millions, and, in the result, the military strength of the army will be increased threefold. That is the goal to which our military policy should be early directed.

FOOT-NOTES TO THE INDIAN BUDGET.

CHAPTER XV.

The Home Charges, which in Indian nomenclature, are termed the official section of the annual Drain, have been considerably increased by reason of the War gift. Of the hundred millions presented to the British Government, ten millions will be obtained from the present War loan and, for the rest, the Government of India have decided to pay the interest and the sinking fund charges of an equivalent portion of the British War loan. For that, in the current Budget, £3·375 millions heve been set apart for interest and a million for the sinking fund, both of which amounts naturally figure in "the Home Charges," which thus come up to £26 millions, six millions more than the average pre-War figures. The following are the main details of that expenditure:

		£ Millions
Military Services		5.6
Railways		
Interest on Debt	3·6	
Annuities in purchase of Railways	3·3	
Interest on Company Capital ...	2·2	
Other Charges ...	0·3	
		9.5

Interest on Other Debts	...		7·4
Civil Charges			
Furlough and Absentee Allowance.		0·26	
Superannuation Allowance and Pensions	...	2·02	
Other Charges	...	0·14	
Total	...		2.4

The superannuation allowance and pension charges are specially noteworthy. The total paid in India under the same head does not exceed a million and a half, which amount is shared by thousands of officers against a few hundreds that draw their pensions from England, Yet the latter amount is larger by 33 per cent.

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The Budget statement supplies interesting figures on the incidence of land revenue in tracts enjoying permanent and raiyatwari settlement. Madras obtains seven crores from its agriculturists; the U. P. 6·73 crores, while Bengal gives only 2·7 crores and Bihar 1.52. The revenues from Madras would have been far higher but for the fact that nearly two-fifths of its cultivable area is in Zemindary control, enjoying the blessings of permanent settlement as in Bengal. But for that, the land revenue in Madras would have exceeded at least nine crores. The net cropped area in Madras is 34 millions acres against 26 in Bengal, so that every acre under the raiyatwari settlement pays at least two and a half times as much as an acre under permanent

settlement. It is true that in Bengal some other taxes have been levied to counteract the advantages of the land policy, but still, the incidence of taxation is far higher in raiyatwari tracts. We are led to the same conclusion by a comparison of the total revenues of the two Provinces: 7.7 crores in Madras and 6.2 crores in Bengal and 7.8 crores in Bombay which has only half the population of Bengal.

* * *

Madras and Bombay have an equally unfortunate record under Excise. Below are given the estimates of excise revenue for 1917-18 :

Madras	...	..	...	3.78	Crores
Bombay	...	...	...	2.56	,,
Bengal	...	...	...	1·46	,,
U. P.	...	...	...	1·36	,,
C. P.	...	...	...	1·18	,,
Bihar	...	...	...	1·13	,,

Thus, either because of higher rates of duty or greater drinking propensities, the Madrasi spends the largest amount of money on drink. Bengal and Bombay are decidedly the richest Provinces in India and yet Madras tops the list in the drink bill, equal almost to the combined revenues of those two Provinces. Has not that fact something to say on the Government stock argument that the drink bill is an index of prosperity? Is it contended that Madras is richer than Bengal or Bombay?

By the way, how does the Madras Government explain the prominence of its charges in the above *list?* The difference in the figures is too big to be

explained away by the usual references to higher rates of duty and all the rest of it.

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It is yet too early to decide how far the salt duty imposed last year will reduce its consumption in the country. The rise in duty has been very small and its effect would surely have not been so bad as it seems to have been but for the rise in price as a result of other causes, such as the cessation of imports from Liverpool. The whole country consumed only 35 million maunds at the beginning of the present century when the duty was Rs. 2-8 per maund. With the successive repeal of portions of that import to one rupee, consumption rose by leaps and bounds until the first year of War recorded a total of 51 million maunds—an increase of nearly fifty per cent. as compared with a rise of ten per cent. in the population of the country. Consumption has since fallen, and in 1917-18, the Government expect the sale of only 48 million maunds, but it is difficult to say how far the increase in duty was responsible for the fall. Every Indian ought to consume at least 20 lb. per year on the average, but the figure, is now only 15 lb. against about 10 at the beginning of this century. It may here be recalled that, according to several eminent doctors, the epidemics now raging in India will commit far less havoc if an adequate amount of salt is consumed by the people, but unhappily, during the past two years, there has been a fall in consumption instead of an improvement.

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The smoker is rapidly becoming a valuable asset to the Government of India, though far less paying than the drunkard. Last year, he was responsible for an increase of 17 lakhs in the revenues and in the current year the Government hope to derive from him 45·64 lakhs. That, I may add, is the duty paid on the imports which is about a crore in value; and that amount of money goes out of the country. From this standpoint, the smoker is the worst Swedeshist conceivable. He is addicted to a foreign vice and thereby causes a huge loss of money to his Motherland. The drunkard is of course equally harmful, but if we leave the foreign residents out of account, he is not responsible for so huge a loss of money. Many of our young patriots are probably not aware of this; else they would not continue to smoke. Speaking broadly, whatever the intensity of his patriotism, the smoker is more likely to be a drag on the Motherland than a useful member. If educated India does its duty in the matter, the annual drain can be reduced by half a crore; which, stated in other words, exceeds the money spent by the Government of Madras on higher education. The present War is said to have discouraged many vices, but in India smokers of foreign tobacco seem to have increased by at least 50 per cent in four years!

Incidentally, does it not sound a little unnatural that when the Government needs more money so very badly, the duty on tobacco imports remains where it was? Apart from that, does not the increase in

consumption require the imposition of prohibitory duties on that imports?

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Before the beginning of the present War, rice constibuted the only export on which a duty was levied. Last March jute and tea were added to the list. The Government of India have been following a somewhat mysterious policy in this respect. Several others of our exports will support a duty, mainly cotton. Coffee is another article, standing almost on the same footing as tea, which is now bearing the tax without difficulty. Some of our minerals, specially mica and wolfram will also sustain a duty and when the Mowhra fflower of Hyderabad is exploited to the full, acetone and the Mowhra spirit will surely find a ready market in spite of a high duty. The exports of rice have decreased during the period of War, mainly because of the high freight charges. But there has been no corresponding fall in the price in India, which is explained by the fact that the exports formed so small a portion of the total output in this country that the retention of a small portion of the former could not materially alter the local supply. In fact it is doubtful whether the total prohibition of exports will bring down the prices. India certainly does not produce the quantity of rice required for her people, and the exports are found possible simply because a section of Indians are compelled to live on inadequate or non-rice food for a number of months every year. Our experience during the War must encourage the Government to levy a higher duty on rice. We

shall surely not lose to any great extent if it should seriously restrict exports, which consequence is very doubtful.

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The cost of general admistration is admittedly very high in India, because our Civil Service is the costliest in the world. But to arrive at that conclusion, we have to include the salaries of all civil establishments and not merely that of the chief officers who form the Central Governments. The latter by themselves do not cost much, not more than 1·67 millions sterling; and that amount is distributed as follows:

		1913-14	1917-18
The Supreme Govt.		In lakhs of Rs.	
1. Salary and expenses of the Viceroy	...	11·3	10·2
2. Executive Council	...	4·8	5·2
3. Legislative Council	...	1·7	1·9
4. Secretariat	...	35·4	37·2
Provincial Governments—			
Madras	...	14·2	15·9
Bombay	...	19·4	21·0
Bengal	...	24·3	25·7
U. P.	...	17·3	17·9
Punjab	...	12·2	12·6
Burma	...	15·1	15·9
Behar	...	13·8	13·5
C. P.	...	9·3	9·5
Assam	...	5·8	6·1
Account and Audit Offices	...	38·0	37·9
Total including minor items	...	238.9	251.5

Bengal and Bombay surely spend a very huge figure on the Central Governm ents, specially because of the existence of Divisional Commissioners, the needless intermediate officers between the district officers and the local Governments. If Bombay were as large and populous as Madras, she would probably have spent 40 lakhs.

It is satisfactory to note that the Viceregal charges have considerably diminished in recent years, probably as a measure of War economy. From 11·5 lakhs in 1912-13 to 10-2 in 1917·13 is surely a good decrease and the first noticeable reduction is observable in the first year of the War. The charges under all other heads have increased, though not very largely and Madras has the worst record. The year before the War, this local Government was satisfied with only 14·2 lakhs and a steady increase has brought it an estimated cost of 15·9 lakhs for the current year. There is not however much to choose between the other local Governments, all of which have increased their expenditure during these War years. The rise was perhaps inevitable but could it not be postponed ? Economy in all departments has been preached so persistently and vociferously that we expected the heads of Governments to have been convinced thoroughly of the need for it. But the figures show that our highest officials have not much faith in the saying: "Example is better than precept." An increase of seven lakhs in three War years is surely not a very praiseworthy record when the Viceroy himself was pleased to reduce his expenses by a lakh. But in fairness, we

must confess that Local Governments have one excuse: The Viceroy's example has not been followed by his own Executive Councillors who are far more closely associated with him!

* * *

The Indian Posts and Telegraph Department has long been a paying concern giving an increasing net revenue to the State. Owing to the increased telegraph charges, the net profit for 1916-17 was 93 lakhs and it is expected to exceed a crore in the current year. The usefulness of the Department has increased very considerably in recent years as is testified by the following table:

	1894-95	1914-15
Post Offices ...	10,714	19,158
Letters, etc. ...	392 millions	1,030 millions
Value of M. O's...	205 ,,	560 ,,
Inland Telegrams.	3·2 ,,	13·0 ,,

The main defect of the Department has been its want of enthusiasm for expansion and progress. There are still a very large number of bigger villages which need postal service very badly and it will surely be to the advantage of the State to supply that need. The new offices may not be paying at once but they surely will be in the immediate future. The policy of the Department should be to spend its net revenues, at least a decent portion of the same, on expansion; and in all ways, it will surely from a very good investment.

Another criticism which our Postal Department cannot but plead guilty to is its conservatism in adopting many improvements noticeable in European

countries. That drawback it shares with England whose Postal Department is said to be the least progressive among the Powers. Numberless are the improvements practiced elsewhere that have yet to be copied here and I shall name only four of them: (1) In Germany and the Dual Monarchy, express letters are conveyed within a certain radius at any time of the day or night on a small additional payment. (2) In many European countries, newspapers are delivered without wrapper, address or stamp to each of the subscribers according to the list of names and addresses supplied. (3) In Germany parcels are accepted to any size and this convenience is said to have materially assisted the expansion of her trade. (4) The postal Savings Bank system is extended in various ways, such as the acceptance of cheques like ordinary banks; or withdrawals at any Post Office regardless of the place of deposit.

In all these and several other ways, the Indian Post Office can increase its usefulness to the country and derive a far bigger net revenue. But unhappily it is extra-conservative and over-cautions.

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The conservatism of the officials here is best seen with respect to the Savings Bank rules. In spite of recent improvements, a person is empowered to deposit only Rs. 1,500 per year of which only Rs. 500 shall be to his credit for withdrawal and the rest in Government securities. The following improvements suggested to the British Government by the Fabian Society are surely applicable to India:

"No one having an account with the Postmaster-General as banker is allowed to draw a cheque upon his account, as he could on a current account with any other banker. Ever since the last century Post Offices elsewhere have given their customers this convenience. In Austria-Hungary, for instance, since 1896, any depositor having a balance of not less than £4 may obtain a cheque book, by means of which he can draw against his account, and thus pay his bills by cheques for any account up to £500. Anyone wishing to make a payment to him may pay it into his credit at any Post Office. He is advised by post of every amount debited and credited to his account. An even cheaper way of making payments is by mere transfer from one account to another. This is effected by filling up a treble transfer card (these are supplied in books at a halfpenny each); one part being handed in at any Post Office; the second part, which the Post Office stamps, serves as a receipt; and the third part is available for sending, free of postage, to the person to whom the payment is to be made, as notification that the sum has been placed to his credit.

"But this extended use of the Post Office Savings Bank is even more more useful to societies of all kinds, and their members, than it is to individuals. In Austria, Hungary, Bosnia, Herzegovina, Germany, Switzerland, Belgium, Luxemburg and Japan any member of a society allowed by law, such as a Trade Union or Friendly Society, Insurance Office or other association, can pay his subscrip-

tion, whether large or small, weekly or annually, at any Post Office in the Kingdom, *without charge to either society or member.* The amount is simply credited to the account of the society; and the Central Post Office supplies the society daily with a list of the amounts paid in to its credit on the day before yesterday at all the Post Offices in the Kingdom, with the names and addresses of the payers—thus saving all the buying of postal orders, all the despatch of letters, all the burdensome opening and sorting at the head office of thousands of communications, and all the risk of loss and mistake. Such a system would save literally thousands of pounds a year to many of our large Friendly Societies and similar organisations. The Post Office elsewhere gets the profit of handling this constant stream of deposits. Our Post Office refuses it."

"It would be of great convenience to the mass of humble travellers up and down the country, who have not got banking accounts and are exposed to constant risk of losing their journey money, if the Post Office would issue Letters of Credit, just as capitalist banks do for substantial sums. The need is not sufficiently met by the permission to withdraw up to £1 on demand from a Savings Bank account. The German Post Office issues, for cash on demand, a Letter of Credit in the form of a neat stiff-covered booklet, available for four months, entitling the owner, on proof of identity, to obtain payment at any Post Office within the Empire, of one or more of the ten coupons (which may be for

5s. each, or for as much as £15 each) which the booklet contains. For this convenience the charge is six pence, together with a penny or two for each coupon cashed. This is found of great use to hawkers and pedlars, to artisans on their travels, to workmen sent to distant jobs, to agents and commercial travellers, and to tourists and holiday-makers. The Italian Post Office started a similar system as long ago as 1873 but has not developed its use."

In addition to these, one fails to understand why our Savings Bank should not pay a higher rate of interest than 3½ per cent, at any rate as much as the Government pay for their borrowings. It is equally inexplicable why one should not be empowered to deposit more than Rs. 1,500 per year. If the Government were afraid of being unable to meet sudden withdrawals, let them demand previous notice of a definite period as is done in several other countries in the case of large amounts.

In all these ways, the Government will obtain large sums of money, sometimes at no interest as in the case of amounts in transfer. A large balance will always remain with them in those ways and will be possible to utilise an increasingly large portion of it for the permanent capital needs of the country. The improvements effected by Sir William Meyer have surely justified his boldness; will he utilise the success to effect further reforms?

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With the increase in litigation and crime, it is inevitable that expenditure on law courts and gaols should rise, and the past five years have witnessed

an increase of nearly 75 lakhs. Bengal figures prominently in both the tables. In spite of the starting of the Patna High Court, more than a crore is spent there on courts of law. Madras comes second with 86 lakhs and U. P. third with 68. In gaol expenditure Bengal comes first, the U. P. second and the Panjab third, the outlay being 28, 24 and 19 lakhs.

Needless to say, the expenditure on the Police is increasing very rapidly and for clearness, I shall compare the rise in it with the same in some other departments:

	In Crores of Rupees 1913-14	1917-18
Police	7·29	8·59
Education	4·75	5·42
Sanitation	0·63	0·91
Medical	1·37	1·45
Increase in Police Dept. ...		1·30
,, in other *three* Depts...		1·03

The inference ? The Government spend more on the Police Department than on Education, Sanitation and Medical Relief and the increase in the last three departments has been less than the increase under the single head of Police. It is doubtful whether any country can supply a parallel to this with the possible exception of Russia before the Revolution.

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The following additional figures indicate the share of the various Provincial Governments in yielding that notable record :

Increase in lakhs of Rupees in five years in

	Police	Education	Sanitation	Medical Relief
Madras ...	23	15	6·4	5·0
Bombay ..	12	7	4·0	—0·7
Bengal ...	40	17	2·7	1·0
U. P. ...	16	—10	—5·0	—1·7
Panjab ...	11	2	3·0	2·0
Burma ...	7	S	6·0	0·5
Bihar ...	3	3	3·5	—0·2
C. P. ...	2	10	3·0	0·7
Assam ...	1	3	0·3	0·3
Imperial ...	13	4	4·2	0·9

The record of the United Provinces is decidedly the worst. During the past five years, Sir James Meston has permitted a reduction of expenditure on the progressive Departments by 16 lakhs. His regime can have no other epitaph.

Madras has acquitted itself most creditably. Burma comes next and let us hope Sir Harcourt Butler will be equally noble in the U. P.

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The amount of money spent by the Government on medical relief can be measured from the fact that Madras, where the outlay is the largest, except only in Bengal, there is one dispensary or hospital for every 60,000 of the population and for every 600 sq. miles. A dispensary cannot surely be expected to serve more than 30 sq. miles efficiently and at that rate, the Government will have to increase the existing institutions in Madras twenty times before it

can be said that the needs of the whole Province are met. The total cost of such expansion, including supervision, will roughly be 3 to 4 crores, so that for the whole country we shall require an outlay of at least 30 crores, whereas the present expenditure is barely a crore and a half. During the past five years, the increase has been a quarter of a crore; proceeding at that rate it will take 600 years before the needs of the whole country are satisfied ! The very idea itself is unthinkable; and will one dispensary be sufficient for every 30 sq. miles?

A similar comparison with respect to grants to sanitation will lead to even more discouraging conclusions. The total expenditure in the whole country is now 91 lakhs, whereas the needs of Bengal alone require a large annual outlay. Unhappily that is also the Province which spends very little on sanitation: 5 lakhs against 13 in Madras and 10 in Bombay. The Government of Bengal has been in this respect acting like the proverbial miser, accumulating huge unspent balances when every district loudly calls for releif.

EDUCATIONAL FINANCE.

CHAPTER XVI.

It is wholly outside the scope of this treatise to examine the Educational policy of the Government or even the extent of progress made except with reference to its financial aspect. The notes in the previous chapter have indicated how slow has been the expansion of educational grants, but for more exact information, we have to examine the extent of the work done and of the work that lies ahead. So far only twenty per cent of our children are in schools and they are known to be there on an average for two years at the utmost. This is the first point that needs careful consideration at the hands of all students of finance.

Educationists all over the world are convinced that if school life were to leave any permenent useful results on children, even for the simple advantage of breaking down illiteracy, they must put in an attendance of four to five years. In European countries, the period is extended to seven to ten years, which higher limit is aimed at by the present Educational colleaugue of Mr. Lloyd George. Taking however the lowest conceivable limit of four years, we come to the startling conclusion that at least

half the money that is now spent on Primary Education is literally wasted. It is spent on children who attend schools for less than the minimum period of time and the money and energy spent on them is lost.

This, to my mind, is the strongest reason in favour of compulsory attendance, though unhappily it is not receiving as much attention as it deserves. India is a poor country and it is very, very, unfortunate that half the money spent on education is to be wasted. This argument is strongly in favour of the plea that compulsion should be introduced in areas where Primary Education has made greater headway such as in Municipalities; for it is there that greater waste of money is going on. I have not yet come across a single argument justifying such waste and I venture to ask whether many of our educationists have bestowed any thoughts on it at all.

Before I proceed further, let me again draw pointed attention to the way in which the provincial Governments have conducted themselves in spending their Education grants. In the first place, they show great reluctance to spend on education as much as they promised to do at the beginning of the year. In the past year, they promised to spend Rs. 488 lakhs, but now we find that they will be spending over 13 lakhs *less*. Such a policy is doubly unfortunate. The Education Department is starved, and an indirect pressure is brought to bear on the Supreme Government not to give further grants. If any popular representatives ask for more

money, Sir William Meyer can now say; "We have given already more than the Provincial Governments have been able to spend. Is it not foolish to ask for more when there are other needs to be satisfied?" How miserably the latter have failed in that matter is evident from the fact that out of the 490 lakhs given by the Government of India, the balance that will remain unspent at the end of March next, will be 223 lakhs. It is true that, since the War broke out, the Government of India is not very willing to release the balance of unspent grants, but that does not in the least absolve the Provincial Governments. If they had spent every year what they were permitted to do, the balance would surely have been far less, and very probably the Government of India would have made larger grants. The blame for not expanding educational facilities, therefore, rests to a very large extent on the provincial administrations as well.

Let us now consider to what extent the Government will have to increase expenditure on education if the most modest of Indian demands are to be satisfied. At present 20 per cent of the children are receiving instruction and Indians demand that that proportion should be raised to upwards of ninety. By that we do not ask that instruction should be universal up to the age of fourteen or eighteen; that will mean a further raising of the percentage under instruction. If those in schools are to be increased five fold, and instruction be made compulsory in at least the larger units of population, not more than fifteen per cent of the population will be in schools.

The percentage of children in schools to the total population in some countries is as follows.

Belgium	...	19
England and Wales	...	19
Canada	...	19
France	...	18
Prussia	...	18

The above percentages are arrived at on the figures supplied in the *Statesman's Year Book for* 1914 and they may be slightly mistaken since the total number of children under instruction in all grades of schools is rarely given in that book or any other to which I could get access. The above figures have been arrived at by adding the various figures given in that book aud it may be assumed without fear of contradiction that in all the above countries upwards of 18 per cent. of the population are in the school.

In India we have only twenty per cent. of the population of school going age under instruction and the latter is assumed to be 15 per cent. of the total population. Thus for purposes of comparison with the above figurs, the percentage for India is only *three* which brings us to the inference: For every six children attending schools in other countries one attends in India; and if further, we note the fact that less than half of the children here receive instruction for four years or more, the conclusion we lead to is:

For every twelve children receiving the minimum benefits of instruction elsewhere, only one receives it in India.

We shall not proceed with that theme any longer. What is to the point here is this. Compulsion being essential in any case, the grants of the Government will have to be increased at least sixfold to the Educational Department before India reaches the limit already passed over by European countries.

I am aware of the lower estimates of several authoritative Indians and even European officials of the cost of introducing Compulsory Education but they have ignored several important considerations.

(*a*) Progress in Secondary and Collegiate Education will have to be accelerated uniformly with that in elementary instruction.

(*b*) The teaching profession will have to be considerably strengthened and its prospects improved if universal education were to be possible. With so few schools that we now have, it is difficult to get a sufficiently large number of trained teachers. The outlay in that direction will have to be very materially improved and the Government will insist on such iuprovement in coming years.

(*c*) The proportion of non-Government expenditure on Education is bound to be in inverse ratio with the Government outlay when progress has to be rapid. Fewer will be the privately managed schools.

(*d*) The material contribution now made by fees will be relatively far less when compulsion is introduced. Education will have to be free for a very considerable sections of the children, say from 60 to 80 per cent.

These are all essential outlays and both the Government and the public will find it impossible to avoid them.

The erroneous calculations now in vogue are based on some such calculation as this: At present, the total cost of educating a child in all schools is Rs. 4–13—10 of which only Rs. 1—1—6 is met from the revenues. At this rate, to educate 30 million children who are now not receiving instruction three crores will have to be spent from the Government revenues. Others are slightly more reasonable. They fear that the Government would have to spend a higher amount and contribute almost as much as is now spent by Local Boards and Municipalities. Thus their estimate will be Rs. 3 for every new pupil to come under instruction, which will necessitate a further Government outlay of 9 crores on instruction alone.

I have considerable apprehensions whether the balance necessary to educate a boy—from Rs. 1-3-0 in aided schools to Rs. 6-15-0 in Government institutions—will be met from such income as fees and endowments. Let us however accept that the amount will be made up, in which case too, further outlay will be required under the following heads:

(1) Training of teachers.
(2) Secondary Schools.
(3) Colleges.
(4) School-bindings.
(5) Furniture grants.
(6) Inspection and Supervision.

The minimum of increase in all these six directions cannot be definitely stated. The Government spent under the first three heads about 3 crores in 1913—14 and speaking broadly the outlay will have to be six times as great at least under 1, 4, 5, 6 and four times under the other two, which comes to about 16 crores—leading to a total of 25 crores. To that we must add the cost of *improving* the teaching profession.

In 1917-18, the Government hope to spend Rs. 5·4 crores. Thus to satisfy the Indian demand, the increase required is 20 crores. I feel quite sure that in practice it will have to be increased by at least five crores. The Government and the public must ask how that huge amount is to be obtained after the war, say in the next 20 years.

THE ECONOMIC IMPROVEMENT OF THE MASSES

CHAPTER XVII..

A joint study of the Report on Agricultural Progress in India and of the Budget statement reveals some very interesting facts to which it is essential to draw the pointed attention of the people of this country. Both those documents proceed from the highest official quarters, so that the conclusions based on them cannot be brushed aside unceremoniously by any fair-minded critic. In both of those records, we have considerable information on the most important occupation of our masses—in fact, their only occupation, agriculture; and while Mr. McKenna tells us what can be done for their improvement, Sir William Meyer completes the story by telling what is being done.

Our chief crop in India is rice. About a third of the cultivated area, 76 millions to be more exact, is utilised for its production. Mr. McKenna says that if the cultivators can be influenced to take up only one improvement, viz., that of transplanting the crop, the average yield will be increased by 400 to 500 lbs. per acre. A simple arithmetical calculation shows that if that practice is universalised, the benefit to the whole country will exceed three hundred crores in value per annum. The

Agricultural Department has in view several other improvements as well, such as the utilisation of improved manures; but, for the purposes of this calculation, we shall ignore the vast profits that will accrue to the country by their popularisation.

Let us take some other crops. Under wheat, Mr. McKenna has made an equally tantalising statement. If the variety officially styled Pusa 12 is grown by the wheat cultivators, "the increased production comes to Rs. 12 per acre". He speaks of several other verieties that have proved very remunerative, and, as in the case of rice, improved methods in cultivation are expected to yield far better results. Again leaving those apart, a gain of Rs. 12 per acre will increase national production by about 40 crores of rupees. Passing on to sugarcane, Mr. McKenna speaks of an improved variety in the U. P., the yield of which "per acre at the Rosa Factory was between six to seven hundred maunds compared with the average returns of two to three hundred maunds from the ordinary cane grown by cultivators". In Bombay, at the Manjri Farm, the crop amounted "to over 50 tons of stripped cane per acre, yielding 13,362 lbs. of gur, worth Rs. 954, giving a net profit of Rs. 494" Cane cultivators rarely obtain Rs. 100 net per acre, and if this variety were to yield only Rs. 300, the gain to the country will be over 75 crores—of course on the assumption that improvements at least to that extent are possible everywhere.

We have no desire to give further extracts from Mr. McKenna's report. Taking only three crops

which do not occupy even half the area under cultivation in the country, we find that if only one or other of the improvements desired by the Agricultural Department are effected, the income of our raiyats will be increased by over 400 crores of rupees. It will surely not be an exaggeration to state that if such improvements were introduced over the *whole* cultivated area, the gain to the country will at least be 500 crores per annum, which works at Rs. 20 per head of the population in British India. The potentialities are far larger, and all along we have taken only the minimum, and even on that calculation, the average income of an Indian can be increased by 60 per cent. if every raiyat came under the influence, direct or indirect, of the Agricultural Department. And we have now the highest testimony to the effect that once the culivator is convinced of the advantage of introducing an improvement, he at once accepts it if it were to be within his means.

At this stage let us turn to what Sir William Meyer has to say. The total amount of money spent on agriculture in 1916-17 is only 92 lakhs and it is proposed to increase it to 129 lakhs out of the profits of the wheat exports to England. It is a matter of common knowledge that the Department is now very inadequately manned. Some of the districts cannot boast of even demonstration farms, and if agricultual improvements are to be popularised, we shall require them at least one in every taluq. Some of the Provinces, including Bengal, do not also possess even a single Agricultural College, and, where they exist, a mere handful of youths are admitted. In Madras

hunderds of qualified candidates seek admission and not even a quarter of them are admitted. Conditions seem to be worse in other Provinces. Thus, from what is at present done, it looks as if it will take at least three to four decades before the Agricultural Department makes its existence known to every raiyat in the country.

What we have to consider now is this: Knowing that our agricultural wealth is capable of increasing to the extent of 500 crores, and that our masses are inexpressibly poor, ought not the Government make up its mind to spend at least 10 crores per year to secure that increase in wealth? Such an increase will obtain to the State alone, in the form of customs and land revenue, far more than 25 crores—which amounts to only five per cent. So the Government of India, by spending ten to fifteen crores now on the Agricultural Department, can easily expect more than a hundred per cent. return in a very short time, and the advantage to the masses will be stupendous. Thus a great opportunity is open to the Government of India to improve the economic condition of the country—in fact, the opportunity was there for the past few decades. It has only been brought to public notice in recent years, and so far the Government have shown no inclination to move. Why is the inactivity? Is it that the Government have no faith in the published statements of its own Agricultural Department—statements which are based on actual experience? What other explanations have they?

A SUMMARY OF CRITICISMS.

CHAPTER XVIII.

The main theme of this book is the necessity to take a long view of Indian finance and direct it with a steady view to greater, far greater outlay on progressive causes without materially increasing the burden on the poor, and if possible even to lighten the incidence of taxation on all except the rich.

If we look ahead for a long period, say of 20 years, the Government of India must draw up its programme somewhat as follows :

Amounts of increases needed in expenditure :

Education	Roughly 25 Crores of Rupees.
Sanitation	10 do.
Medical Relief	10 do.
Agriculture	10 do.
	Total Rs. 55 Crores.

This total will look very extravagant to some, but if they have closely studied the previous chapters, they are very likely to put forward a larger demand, unless of course they belong to that class of superior beings who are content to leave India in her present conditions. How is that amount to be obtained? There is a natural growth in our

revenues amounting yearly to a million sterling but the whole of it will be probably required for the executive departments only, in special the Police.

Non-official opinion, so far as I have been able to gather, is inclined towards such additions to net revenue as these :

The creation of a citizen army and the decrease of the strength of the European element in it. As explained in one of the foregoing chapters, it will be possible to effect a saving of at least five millions sterling without in any way decreasing even the peace strength of the armies. At that decreased cost, introduction of Short Service for Indians as well, may yield us more than a million and a half reserves.

(2) If the State should take over the management of railways, the revenues are likely to be benefitted by two millions if not more.

(3) The regulation of religious endowments and the utilisation of their surpluses for education or sanitation—perfectly reasonable and legitimate, —will give considerable relief to the State, but it is hard to guess its exact extent.

It will surely be no exaggeration to say that from these three sources alone, the State can get more than ten millions sterling without adding a pie to the taxes of the country. The revenues under the second head will also be growing.

How is the balance to be made up ? Further taxation may be necessary but before we go to their consideration, let me indicate two other sources of

revenue. A larger outlay on the progressive departments, specially agriculture, will yield vast sums of money to the State, under customs, on both exports and imports for which there will be greater demand, under land revenue itself because at successive re-settlement operations the enhancements will be higher, but *without increasing* the incidence of taxation; and under railways and stamps because of the greater amount of money available to the masses and the greater value of lands due to greater production. The Government may safely rely on obtaining from these increases at least as much as they spend in the Agricultural Department. Our calculations in the previous chapter encourage even better expectations.

The other source. I refer to has not yet been discussed here: *viz.* irrigation. A chapter is devoted to it at the close of this book. If the government will increase the outlay on irrigation projects as fully as the needs of the country loudly demand, at the end of twenty years the Government may expect an increase, a net increase, of ten to twenty millions sterling. The whole of it will not be in irrigation revenue alone, not even under land. The greater production of wealth thereby caused to the country will yield results, identical to those mentioned above with respect to agricultural improvement. The past history of the agricultural Department considerably strengthens our calculations.

Even when all these suggestions are accepted, the demands of the country will be hardly met. How is the balance of money to be obtained? New taxes

will be essential but they can be easily put on the shoulders of the foreigner. Both our import and export duties stand in need of reform and one wonders why a greater tax ought not to be put on articles of vice like tobacco and intoxicating drinks. The tax on rice can advantageously be increased, and coffee may be asked to pay a small tax like tea. Our mineral products, specially those which the outside world are a bit anxious to get, will ultimately bear a decent tax. Then there is raw cotton, rather a delicate matter in view of the hue and cry raised by Lancashire over the import duties.

The demands of Indian Economists with reference to these customs duties have been considerably supported by our experiences during the war. Some of the taxes now imposed press indirectly on the people themselves; but still, if we take all of them into consideration, the conclusion is irresistible that a greater part of the proceeds comes from the foreigner.

I am satisfied that if all these suggestions are given effect to, the Government of India will find, in twenty years, the money that according to our initial calculations they will have to spend on the progressive Departments. I have only to add that the proposals I have put forward are in no sense original and they have been constantly brought to the notice of the Government by Indian publicists.

PROBLEMS OF EXCHANGE AND CURRENCY.

CHAPTER XIX.

No reference has so for been made to problems of currency and exchange, not only because attention may then be diverted from the purely financial questions dealt with here but also because I believe it is outside the scope of this treatise to discuss these problems in detail. A few notes are however here appended, indicating the bare outline of the Indian standpoint. The reader will also see that Indian finance is even now considerably influenced by problems of currency and exchange, specially the latter. The War created a serious exchange situation by increasing largely the exports and decreasing the imports and the task of maintaining the exports has therefore caused considerable trouble.

There have been many announcements on that subject, but they have all proceeded on the assumption that it is the duty of the Secretary of State for India to assist the traders in exchange matters. We do not know why the Government of India accepted that function, nor is there any explanation as to why the traders expect the Government to perform it at the cost of serious financial dislocation in this country.

Explained in popular terms the position is simply this: The foreign trade of India is made up of larger exports than imports, so that a large amount of money has to come to this country throughout the year. On the other hand, the Secretary of State requires money for expenses in England on behalf of this country for what are called the "Home Charges". To get that he accepts money from those, generally through the Exchange Banks, who desire to make remittances to India, and asks the Government here to pay the amount, minus a small commissiou. Several impartial critics have often complained that the commission charged is extremely low; and if only the Secretary of State should make up his mind, he could charge a far higher rate and thereby increase the revenues of India. But that he does not do, for reasons which have never been explained to the satisfaction of Indians.

That is, however, a long standing grievance with which we are not mainly concerned now. Our complaint is that the foreign traders expect the Secretary of State to accommodate them even against the interests of the Government. There is a justification for selling Council Bills—as the arrangement is technically called—only so far as the needs of the India Office are concerned, amounting at the worst to 20 millions sterling. The demand of the traders is this: Whether the Secretary of State requires money or not for his purposes there, he must accommodate them by selling Council Bills to the amount they require. We feel sure that their demand has only to be thus explained to be condem-

ned as extremely selfish. One is therefore, much pained to see that the Finance Member thought it necessary recently to run all the way to Calcutta to explain to the traders that the Secretary of State could not satisfy their utterly selfish demand to the fullest extent !

We do not desire to complicate the issue by discussing some further aspects of this selfish demand; but we wish to make it clear that it is the duty of the Exchange Banks to regulate the trade balances. Needless to say, if the Secretary of State confines himself to his legitimate function, they will find it less paying to assist foreign trade at the existing rates of commission; and that is no reason for dislocating India's finances and causing a serious loss of revenue to this country. At present, the Secretary of State, by satisfying the traders' demand partially, is increasing the money at his disposal in England—money which serves no purpose whatever, and which was often lent out at very low rates of interest for reasons which are again unconvincing if not mysterious. As Mr. Gokhale was never tired of saying, whatever apologists may say, the people of India see no justification for the policy of borrowing money at four per cent. in India or London, and lending it out to London firms at two per cent.! The latter, shrewd practical men that their leaders are, knew full well that the money lent to them by the Secretary of State would be very rarely required, and would never be required all of a sudden. That at any rate is how many critics, including several Europeans, look at that arrangement. We must,

however, confess that it was found faultless by the recent Commission, presided over by the present Secretary of State.

Three distinct questions are involved in this business. We have to consider whether the balances now maintained have to be so large as they are. On this point, we do not propose to say here any more than that no one seems to know to what extent they are to be inflated. The maximum easily becomes the minimum, and then again it grows. That is a mystery which is yet to he explained. The second question is: Should the balances or reserves be held in London in such large proportions? The third has already been referred to: whether they ought to be lent at such low rates of interest. On the second question, too, there is a good deal of divergence of opinion, and the bulk of non-official critics—again including several Englishmen—do not agree with the India Office view. They urge that the money should be held mainly in India and lent out, if it can be lent, only in this country.

The most noteworthy aspect of this controversy is that the official experts decline to be led by experience. If we review the history of the past five years, we find that no occasion has occurred necessitating that the balances should be held in London. In fact, a good deal of trouble is being caused now by their being held there. Our exports always exceed the imports; consequently, the payments have always to be made here, even after "the Home Charges" are excluded. That is the verdict of recent experience; but the experts say: Why should we be

guided by it? In other words, they ask, why should not the extraordinary happen? No doubt, it was about to happen once during the past 15 years; but even then, the situation would not have occasioned any crisis, if the reserves had been held in India. Such changes in the normal current of trade do not happen suddenly. They give ample previous notice, and so there will be time enough to transfer the reserves.

Several eminent critics believe that the official policy causes a serious loss of revenue to the State. At any rate, adequate justification has yet to be found for the policy of lending money in London. If the money be held in India, our trades and industries will be assisted. The general rate of interest may go down a little.

The Hon. Mr. Dadabhoy was the only Member of the Supreme Legislative Council who drew official attention at the last session to the unfairness of piling up those balances in England while the needs of the country are pressing in India. He suggested that a major part of that money might be handed over to the Government of England towards the War gift, in which case, the recurring charges to the Government of India, for the sinking and for interest, will be materially curtailed. As Mr. Dadabhoy reminded the Council, the Secretary of State has invested some of his holdings in permanent securities, some of which are not saleable now, which gives clear evidence that in his own opinion, the money which may suddenly be needed to rectify any exchange or currency trouble is far less than he has at his disposal. After furnishing this piece of

evidence, the Secretary of State has no justification of any type to decline Mr. Dadabhoy's proposal. It is true that a part of the reserves is lent on interest, but it is lower than that which India will have to pay England for the larger portion of the War gift.

It is unfortunate that a definite discussion was not raised in the Supreme Council on the question of these balances. The Government policy is openly unsustainable. India is now asked to borrow 90 millions sterling at a higher rate of interest from England, and at the same time, India has lent nearly half that amount to England at a lower rate. We are not surprised to find that Sir William Meyer chose to remain silent on that point in spite of Mr. Dadabhoy's pointed remarks. For, what justification could be made except to say that the India Office experts were in favour of such a policy? And he has certainly shown considerable insight in refusing to take shelter behind such a thoroughly unconvincing plea. While his silence is thus understandable, we must repeat that India cannot afford to ignore the hardships involved. The acceptance of Mr. Dadabhoy's suggestion to the utmost limit permissible will reduce the annual war burden to India by about a million sterling, if not more, which is, we may add, five times the amount by which Sir William Meyer has been pleased to increase the educational grants this year. The whole subject of cash balances and reserves deserves the early and searching scrutiny of the Supreme Council.

Below we give the extracts from the the Hon. Mr. Dadabbay's speech, referred to in the above passages:

My Lord, I may be permitted to respectfully point out that the scheme devised for the payment of £100 million sterling to His Majesty's Government, though admirable as it is, is capable of improvement. In my humble opinion, there is another practical method of meeting a substantial portion of that liability than the proposal to take over the 90 million sterling of the Home Government's War debt. The Government proposal entails an annual charge of at least £4,250,000 in interest and sinking fund, an amount considerably over the total annual payment, of interest on the whole of the Rupee Debt of India, and about two-thirds of the total annual interest on the whole of our Sterling Debt. Add to this the annual charge of the £10 million loan, and the total annual charge will be heavy. And not only that. Whereas practically the whole of our Existing Public Debt, both Rupee and Sterling, has been raised for *reproductive* purposes, and the interest is charged to the revenues from railways and irrigation works, the whole of the new loan of £100 million sterling will be for the *unproductive* purposes. and the annual payments therefore will be a charge upon the general revenues. The additional charge must to that extent affect the resources of this Government for many years to come, and this at a time when the insistent demands for the development of education, sanitation, irrigation, railway, commerce and industry have to be put off for want of

funds. Taxation has its limits in all countries; and the limits must of necessity be narrow to a degree in an industrially backward country like India. Ordinary prudence would counsel the maintenance of a substantial margin of taxable assets, especially in India. But with the new scale of taxation in operation, this margin has become extremely narrow. It would be wrong to calculate upon a reversion to our pre-War expenditure even after peace has been restored. The Hon. Sir William Meyer told us last year that "the termination of the War, when it comes, will leave us with heavy financial demands upon us." And, further, "the experiences and lessons of the War must also add in some directions to our permanent military charges." How shall we meet the heavy financial demands on the restoration of peace once we use up the sources of revenue in providing for extraordinary burdens? We must look ahead. From the analysis of the position in the Hon. the Finance Member's speech three other possible directions of taxation occurred to Government, one of which—an excess of profits tax—must disappear at the end of the War. It is quite within the range of possibilities, especially in the likely contingency of the War being prolonged, that the remaining two sources will also be used before long.

My Lord, on a careful review of the facts, it becomes necessary for us to devise, if practicable, an alternative scheme of financial aid to Britain without in any way reducing the amount of £100 million sterling, and I submit that it would be fa better to reduce materially the amount of the British

War debt proposed to be charged to Indian revenues by making over to the Imperial Government a substantial portion of the Paper Currency and Gold Standard Reserves now held in England. The Hon. The Finance Member has told us that the total holding in British War securities in the Paper Currency and Gold Standard Reserves will amount at the end of this year to 46½ millions sterling, of which £35 million is wholly new investment. It is difficult to see why the major portion of this money, say, £30 million, cannot be made over to His Majesty's Government. The gold portion of the Paper Currency Reserves held in England is, according to a strong body of expert opinion, unnecessary for the specific purpose of securing the convertability of our notes, and the amount of the Gold Standard Reserve might be reduced, if only for a few years, without serious risk to the sterling exchange. I am aware that the Chamberlain Committee recommended an unlimited accumulation of the Gold Standard Resesve, but the recommendation was dictated by an excess of caution which, in the extraordinary conditions introduced by the War, must lose much of its utility. Besides, in the considered note on the Gold Standard Reserve by Mr. Abrahams, of the India Office, it has been pointed out with great force that the incidents of the exchange crisis of the period between 1st September, 1907, and 31st December, 1908, the severest yet experienced or apprehended, show that a sum of less than £18 million is sufficient to meet all contingencies. As a matter of fact, the

Reserve stood at something less than £12 million in that critical period. And yet there was no difficulty. It is true under the existing orders the Reserve is to be maintained at £25,000,000, but the Secretary of State might be persuaded to reconsider the position, especially in view of the fact that reduction in amount is suggested only as a temporary measure, with the sole object of avoiding to some extent at least, additional sterling liability, an increase which must proportionately aggravate the exchange difficulty.

The investment of the gold of the two Reserves in permanent securities. some of which at least have become unsaleable, shows that it is not immediately wanted for supporting either the note circulation or the sterling exchange. In my humble opinion, the application of a good portion of this gold to the partial liquidation of the Indian War contribution is the best to which it could be put. The interest now earned with it is much less than what we have got to pay for the British War debt taken over by us, and there is great risk of a further depreciation in the value of the securities. Again, we could have easily borrowed £100 million sterling at a low rate of interest on the security of our productive assets. American bankers would promptly underwrite the entire amount for the mere asking, and we would also reap the benefit of a favourable exchange. I am fully aware that an internal loan is preferable for many reasons to a foreigh one, but in the present exceptional circumstances, such a course was permissible, especially as we would have been in a

position to render more substantial aid to Great Britain in prosecuting the War by making an immediate cash payment of £100 million instead of a transference of its long-term commitments. But we must accept the better judgment of Government. Let us all hope that India will be able to raise as large a sum as possible and retain the advantage for itself of an attractive and remunerative rate of interest.

Progressive Press, Madras.

THE OFFICIAL IRRIGATION POLICY.

CHAPTER XX.

References have already been made to the dangers invited by the Finance Member by reducing the capital outlay on irrigation in the current Budget. I shall not repeat here the arguments that weigh against such a reduction nor do I think it necessary to refer to the many blessings of a forward irrigation policy in this country. What is most noteworthy is the mysterious attitude taken up by our Government in all years, either of stringency or of adversity or prosperity, towards the irrigation department. The copious number of famines which have brought upon our people indescribable miseries have impressed time after time the necessity for protecting the people against the fitfullness of the monsoon. But still for some reason or other which Indian publicists are not able to find out, the outlay in any year does not exceed a million sterling. The Government records themselves show that no more profitable undertaking has this country than irrigation-products. After paying the interest on capital invested and all other incidental charges, our Government make a nett profit of 6 per cent which is, from whatever standpoint we may consider, no other than the pure gift made by the poor Indian cultivator for protecting him from famine. Just to

illustrate what India's position would have been if the Government had so far followed a progressive policy, I shall give one common incident. If the Government had spent on irrigation as much as they have spent on railways, to-day the net revenues of the country would have been at least 20 millions more which is enough to introduce compulsory education up to the age of 14. That would have been the gain to the State; to the people, the increased wealth from such huge irrigation products would have been in hundreds of millions of sterling. I do not think any critic can deny the correctness of this statement. Yet for reasons which, I repeat, are misterious to all students of Indian finance or Indian politics, the Government are following a very conservative policy. There is, however, one argument which they repeat very often to which I should in fairness make a brief reference. They say that they cannot move faster than they do at present.

We do not contend that such an argument can never have weight. Surely a stage may be reached when it may not be possible to hasten progress without any evil or unhappy consequences, but we doubt very much whether that stage has been reached in India in any department. Progress here is so slow that if acceleration is impossible, the outlook even for the distant future becomes very gloomy. Happily for us, the official contention holds no water and if we carefully analyse some recent developments, the Government have actually accomplished what was once pleaded by themselves to be impossible.

We shall to-day give one such instance where the Madras Government pleaded their inability to move faster, and the reader can judge for himself how far their plea of impotency is either manly convincing. At a recent meeting of the Madras Legislative Council, a resolution was moved requesting an increase in the Budget grant for Tank Restoration Works. The Hon. Mr. Gillman pleaded that as much money has been allotted as could be utilised by the officers in charge. More could not be undertaken without great harm. H. E. the Governor, in his concluding speech, emphasised the argument still further. The Council was told :

"Some time ago the Hon. Sir Harold Stuart out of deference to the hon. gentlemen made an experiment and put more money into the Budget for tank restoration. We have had two years' experience of that. Actually not only has the extra money not been spent, but the Budget estimate even was not spent in one case. Now the hon. gentleman comes to us at the last moment and says : "Put more money into the Budget for tank restoration." I do not think the Council will assent to that proposal. We have had two years' bona fide, frank and unreserved experiment, and we have not been able to spend the money and we are asked to put more money into the Budget. My hon. friend is perfectly willing to spend more money if we can get up to the expenditure."

In other words, the Government attitude comes to this: " We tried to do more, but found ourselves impotent in spite of repeated efforts." The non-

official answer to that stock argument was given by the Hon. Mr. A. S. Krishna Rao who observed:

"It is Your Excellency's Government that shapes the policy; and if it is resolved by the Government that a larger amount should be spent on tank restoration and that more basins should be investigated and more work should be done, I do not expect any difficulty in the way of the department carrying out those directions. If on the other hand, Your Excellency's Government are not in a position to see eye to eye with us about the necessity of taking up such works, then the Public Works Department will carry out the instructions of the Government. Therefore, I do not see any difficulty in the way of this resolution being accepted. We have not got any plans for the 5 lakhs reserved for new buildings; out of 21 lakhs estimates are given for 16 lakhs, but not for 5."

The Hon. Mr. Rama Iyengar went deeper into the question and charged the Government with having gone back upon an implied promise.

"I think from what we heard from the Hon. Mr. Gillman that we are going back upon what we thought this particular work needed in the matter of the Budget. The whole of what he said to-day would rather indicate that the Conference that was held at Ootacamund, which propounded certain ideas for carrying out of the repairs to the various tanks, more than 40,000 in number, which abound in the Presidency and upon which the Irrigation Commission laid considerable stress on the matter of their being maintained in a very good and efficient state,

was wrong. At that time I dare say the official side was heard at the Conference and the whole matter was considered and sifted fully, and we were told that it had to be distributed over a period which was fixed to be fifteen years. It was also suggested that there should be an increased allotment made to see that the whole thing was done as soon as possible. This was the advice given and we have been proceeding on that all these years since 1911-12. My submission is, if a subsequent examination of the circumstances has brought it out that it need not be kept up, that this rate of progress was unnecessary, which was only thought necessary under the then circumstances, it is only proper that we should have a further analysis of the position so that the non-official members may rest content that this portion of the work does not require that amount of attention which was required at that moment. It would be considerably on the wrong side, after all that was done at that Conference, to say that although it was thought necessary then, it was subsequently found to be wrong. A good case will have to be made out if you are to go back."

So the official attitude may thus be summed up: "A few years ago, the Government considered itself capable of spending a certain amount of money to satisfy one of the most badly felt needs of the masses. But, later on, they came to the conclusion that they were incapable of redeeming that promise." The story is understandable, but which impartial critic will it convince? Who will believe that the P.W.D., that can spend crores on buildings, is incapable of

spending ten lakhs on tank restoration? And that does not fully explain the Government attitude. They plead that not only are the P. W. D. incapable, but even that the Government themselves cannot infuse sufficient capacity into them for increasing the work in that useful direction. We had never thought that the resources of our British Rulers were so miserably limited, and to be frank, we are far from admitting it even now. Any thoughtful observer can see that if the Government is determined, it can spend any amount—provided the funds are forthcoming as they are in the present instance—through its vast P. W. D. What is needed is the determination and we believe that it would have been infused into them if the needs to be satisfied had not been those of the inarticulate masses. One has only to glance at the energy exhibited in building the new M. &. S. M. Head Office near the Central Station, and one can judge for oneself whether, where the demand is put forward by articulate interests, the Government are so impotent as they plead they are where the masses are concerned. We have no doubt the Local Government will agree with our view, if they reconsider their arguments quoted above. These do not become the Rulers of the vast British Empire.

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